Cone of Uncertainty

Executive Summary

Just as hurricane season reminds us that clear skies can change quickly, today's market environment calls for a similar mindset of preparation and resilience. Periods of calm can sometimes mask building pressures and portfolios, like homes and businesses in storm-prone areas, benefit from understanding and appreciating the risks they may face when conditions change.

Markets have entered a more fragile **Phase 4 liquidity-cycle environment**, where strong economic growth, persistent inflation, and tighter monetary policy increase the risk of volatility and weaker forward equity returns. Investors should not focus on a single "base case" outcome, but prepare for a wider range of risks—similar to how Hurricane Charley's forecast cone warned of danger beyond the expected landfall point.

The outlook is not outright bearish, but the risk environment has deteriorated. Inflation, AI-driven growth, debt monetization, and tighter policy place markets inside a "cone of uncertainty," making it better to prepare portfolios for higher volatility than to assume the storm will miss.

Key Points

- Inflation is elevated
- AI spending can be inflationary
- The liquidity cycle has moved into Phase 4
- Equities face higher volatility, especially growth stocks
- Short-duration fixed income exposure potentially looks preferable
- Commodities and real assets may look relatively attractive
- Hedged strategies could offer relative value

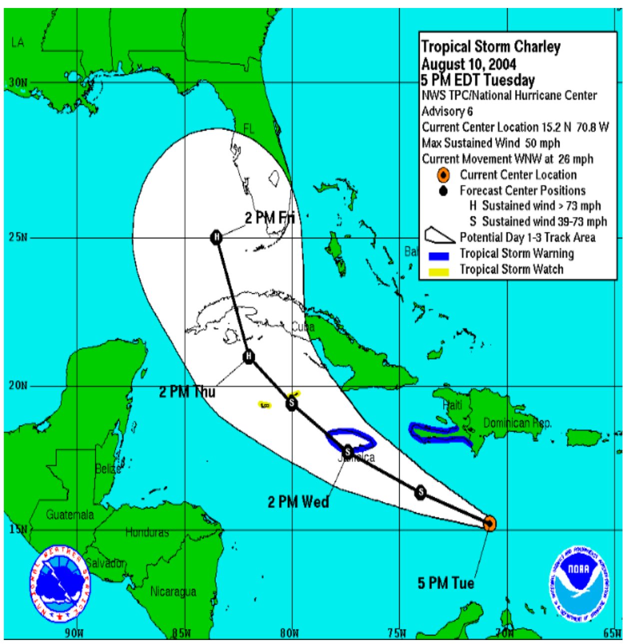
We invite you to read on to learn about the lessons of Hurricane Charley, the importance of understanding forecasts and our outlook for financial markets.

It was August 4th, 2004, and trouble was brewing off the western coast of Africa. Friction between the Saharan Desert heat and the cool humidity of the Gulf of Guinea had spawned a tropical wave and sent it moving west over the welcoming waters of the Atlantic Ocean. Once there the Earth's rotation began to give the wave structure (via the Coriolis effect) while warm water vapor fed it energy.

Over the next few days, the tropical wave gathered strength as it spun its track west towards the Lesser Antilles. On August 10th the National Hurricane Center (NHC) named this intensifying storm Charley. The next day Charley became a Category 1 hurricane as it passed the southern coast of Jamaica and turned northwest.

At this point Charley had the full attention of hurricane officials and emergency response teams. The NHC forecast had Charley making landfall as a powerful Category 3 storm near Tampa Bay, with the broader cone of uncertainty (see graphic) placing almost all of Florida's gulf coast in the storm's potential path.

Hurricane Charley Cone of Uncertainty



Source: National Hurricane Center

Given Tampa's population and urban terrain this forecast was alarming. Public attention naturally centered on the Tampa trajectory and the potential for devastating damage. Worried residents in and around the Tampa Bay area prudently boarded up their homes and packed up their cars. They were not going to ride this storm out.

One hundred miles to the south, many residents of the barrier island community of Cayo Costa took less precaution. Although they were well within the NHC's forecast cone, they had dealt with hurricanes more times than they could remember and felt they weren't at risk with the storm center projected to hit Tampa. Their complacency did not lessen when the NHC issued a hurricane warning for their shores on Thursday afternoon.

In the early morning hours of Friday the 13th, Charley crossed over the mountains of western Cuba. By 2:00 AM the storm was in the open waters of the Gulf of Mexico where things quickly took a turn for the worse. Charley's pace rapidly accelerated to 25 miles per hour, speeding the storm forward faster than anticipated. This speed added volatility. Around 9:00 AM Charley's path began to wobble, putting into question its forecasted landfall.

Just after 12:00 PM, aircraft monitors confirmed Charley had taken a horrific turn to the east, setting it on a course well south of Tampa Bay…where the residents had prepared, they would be spared.

By 3:00 PM Charley's winds had strengthened to 140 miles per hour. Forty-five minutes later Charley shocked the residents of Cayo Costa, hitting their shores as a Category 4 hurricane. At the time, it was the fifth strongest storm in history to make landfall in the United States.

Hurricane Charley took ten lives and caused $16 billion in damages. Most of this wrath was felt in Cayo Costa, Punta Gorda and the greater Charlotte County area. In the aftermath of the storm, angry and bewildered residents understandably felt they were not given the proper notification and demanded accountability. In the ensuing months, investigations and studies into Charley's preparation were launched. The general conclusion was that the population misunderstood the hurricane's risk and the NHC's forecast.

Hurricanes are volatile. For four days prior to landfall the Charlotte County area laid well within NHC's cone of uncertainty, where hurricanes will hit land 70% of the time. Not understanding this nuance, many residents of Charlotte County remained convinced that they were safe. A study by Professor Betty Morrow at Florida International University found that 90 percent of Charlotte County residents believed the hurricane was going to hit the Tampa area until the forecast was changed three hours before landfall.[1]

From the beginning, the NHC's forecast was accurate and misunderstood. Too much focus was drawn to where Charley **would** make landfall when the forecast was warning where it **could** make landfall. As a result, the residents of Tampa Bay prepared for a storm that didn't materialize. The residents of Charlotte County didn't prepare for one that did.

[1] Hurricane Charley August 9-5, 2004 Service Assessment, National Oceanic and Atmospheric Administration, January 2006.

Foreign Share of U.S. Debt

Source: Bipartisan Policy Center

The winds of inflation are brewing up a potential storm for financial markets. The combination of structural imbalances and cyclical momentum could continue to push inflation higher, pulling liquidity from markets. The resulting forecast is potentially one of higher risk and higher volatility.

The structural story is the forced hand of debt monetization. By the end of this year $10 trillion of U.S Treasury debt (about one-third of the total outstanding) is set to mature. Since 2015, foreigners have purchased a declining share of our bonds (see chart). To prevent a rise in bond yields that could choke economic growth (via higher mortgage rates and overall borrowing costs), the Federal Reserve has stepped in as the buyer of last resort.

Debt Monetization

Source: Federal Reserve Bank of St. Louis

The Fed currently owns $4.5 trillion in Treasuries. Purchasing more this year will necessitate printing new dollars, injecting money into the economy at a time when inflation is already accelerating (see chart). If, “inflation is always and everywhere a monetary phenomenon” as the famous economist Milton Friedman once said, then debt monetization could continue to fuel inflationary pressures.

On the cyclical front an acceleration in economic growth is being fueled by the Artificial Intelligence arms race. Goldman Sachs strategist Amanda Lynam estimates AI hyperscalers Meta, Microsoft, Amazon and Alphabet will invest $725 billion in infrastructure projects in 2026, a 77% increase from last year.[2] The spending by these four companies alone will add 2% to U.S. economic output in 2026. Add in all the other AI expenditures and you arrive at a robust forecast for economic growth.

[2] Brian Sozzi, “Meta, Microsoft, Amazon, and Alphabet are about to spend a shocking amount of money to dominate AI,” Yahoo Finance, June 3, 2026.

U.S. Personal Consumption Expenditures (PCE) Price Index
Year-Over-Year

Source: DoubleLine Capital

In a non-inflationary environment, a growing economy is welcome. In an inflationary environment, this growth creates excess demand, pushing already elevated prices higher. Add in the current supply constraints stemming from trade disputes and the closing of the Hormuz Strait, and prices could quickly accelerate to the upside.

With inflation embedded above the Fed's 2% target and turning higher (see chart), it came as little surprise when newly appointed Fed Chairman Kevin Warsh delivered a hawkish, anti-inflationary message to Congress in his first testimony to the House Financial Services Committee. "The members of the Federal Open Market Committee have no tolerance for persistently elevated inflation," Warsh told the Committee. "We share a resolute commitment to restoring price stability.[3]"

When inflation rises to the extent it has today, it is often a signal that the liquidity cycle is coming to an end. The Meridian investment team labels this as a **Phase 4** environment in our liquidity cycle analysis, an environment characterized by strong growth, high inflation and a monetary policy that is becoming more restrictive.

The Meridian investment team recently conducted a study of S&P 500 returns during the four different phases of the liquidity cycle going back to January 1960. Our findings indicate that the Index delivered the worst one month, one quarter and one year forward returns during **Phase 4**. We also found that the likelihood of positive returns declined as the cycle aged. (see table)

[3] Mary Cunningham, "Warsh vows to tackle inflation in first testimony as Fed chairman," CBS News, July 16, 2026.

Inflationary winds that send the cycle into **Phase 4** are a warning of potential market risks.

S&P 500 Returns and Liquidity Phases

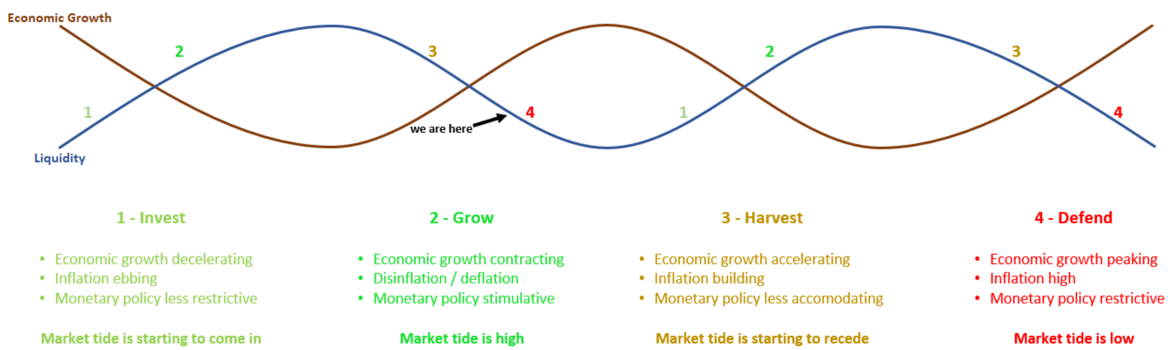
S&P 500 Monthly Returns Per Liquidity Phase

	Phase			
	1	2	3	4
Total Count	144	246	183	222
Average Duration	8.5	14.5	10.8	12.3
1-month forward avg return	0.74%	1.26%	0.74%	-0.01%
1-quarter forward avg return	2.99%	3.43%	2.35%	-0.14%
1-year forward avg return	13.36%	13.57%	5.73%	2.92%
Percent up 1-month	62%	66%	55%	56%
Percent up 1-quarter	70%	71%	63%	56%
Percent up 1-year	81%	85%	54%	67%

Source: Thomson One, Meridian Wealth Management

Liquidity

Liquidity Cycle



Source: Meridian Wealth Management
The illustration is hypothetical and shown for illustrative purposes only. The illustration is not intended to predict the returns of any particular investment, which will fluctuate. Actual results may differ from those depicted in the illustration.

As noted, we enter the second half of 2026 in **Phase 4** of Meridian Wealth Management's proprietary analysis of the liquidity cycle. Given this outlook, we are **less bullish** on markets and have positioned Meridian managed strategies defensively. While we see increased risk for specific asset classes, we continue to see opportunity in others as volatility and potential downside risk highlight the utility of active asset allocations in our cycle-aware framework.

		Liquidity		Money Growth		Economic Growth		Inflation	
	Phase	Level	Rank	Level	Rank	Level	Rank	Level	Rank
May-26	4	-9.3799%	1	5.58%	4	1.666%	4	13.0765%	10
Apr-26	4	-6.1775%	2	4.72%	3	1.366%	4	9.4074%	9
Mar-26	3	-2.0656%	4	4.58%	3	0.581%	4	6.0253%	8
Feb-26	3	0.0410%	6	4.69%	3	0.841%	4	5.7758%	7
Jan-26	3	0.6262%	6	4.09%	2	1.058%	4	2.379[illegible]	6
Dec-25	3	-0.2889%	6	4.04%	2	1.163%	4	3.1276%	6
Nov-25	3	-1.4054%	5	3.85%	2	1.754%	4	3.4371%	6
Oct-25	3	-0.4981%	5	4.28%	3	1.759%	4	2.9674%	6
Sep-25	3	-1.4056%	5	4.24%	3	1.863%	4	3.7090%	7
Aug-25	3	0.4283%	6	4.25%	3	1.189%	4	2.6019%	6
Jul-25	3	0.4715%	6	4.39%	3	1.919%	5	1.9575%	5
Jun-25	3	1.7527%	7	4.13%	2	0.579%	4	1.7885%	5
May-25	3	2.4481%	7	3.87%	2	0.102%	3	1.3180%	5
Apr-25	3	2.4567%	7	3.89%	2	0.882%	4	0.5502%	4
Mar-25	3	1.5012%	7	3.43%	2	0.580%	4	1.3446%	5
Feb-25	3	0.6614%	6	3.28%	2	0.812%	4	1.7935%	5
Jan-25	3	0.1010%	6	3.38%	2	0.849%	4	2.4090%	6
Dec-24	2	2.2615%	7	3.41%	2	-0.274%	3	1.4236%	5
Nov-24	2	4.8208%	8	3.40%	2	-1.558%	3	0.1404%	4
Oct-24	2	4.7019%	8	2.89%	2	-0.995%	3	-0.8272%	3
Sep-24	2	6.1014%	8	2.52%	1	-1.200%	3	-2.4145%	2
Aug-24	1	3.2338%	7	1.97%	1	-0.405%	3	-0.8604%	3
Jul-24	1	1.0251%	6	1.46%	1	-0.923%	3	1.3733%	5
Jun-24	1	-0.2946%	6	1.29%	1	0.773%	4	0.8091%	4
May-24	1	0.3347%	6	0.92%	1	-0.065%	3	0.6477%	4
Apr-24	1	1.9253%	7	0.96%	1	-0.997%	3	0.0272%	4
Mar-24	1	1.4457%	7	0.13%	1	-0.557%	3	-0.7652%	3
Feb-24	1	0.3091%	6	-1.49%	1	-0.354%	3	-1.4470%	2
Jan-24	1	2.6131%	7	-2.05%	1	-1.276%	3	-3.4282%	2
Dec-23	1	-0.1075%	6	-2.41%	1	0.839%	4	-3.1140%	2
Nov-23	1	0.9195%	6	-3.08%	1	-0.090%	3	-3.9144%	2
Oct-23	1	1.0752%	6	-3.39%	1	-0.774%	3	-3.7233%	2
Sep-23	1	-0.0596%	6	-3.66%	1	-0.267%	3	-3.3460%	2
Aug-23	1	0.6621%	6	-3.98%	1	-0.254%	3	-4.4022%	1
Jul-23	1	3.0852%	7	-3.98%	1	-0.312%	3	-6.7722%	1
Jun-23	1	6.2878%	9	-3.93%	1	-0.889%	3	-9.4169%	1
May-23	1	3.4410%	8	-4.10%	1	-0.400%	3	-7.1659%	1

Source: Federal Reserve Bank of St. Louis

The liquidity cycle entered **Phase 4** in April. (see table) What is unique about this cycle is that a typically bullish acceleration in money supply growth is being more than offset by accelerating economic growth and persistently high inflation. For several quarters we have highlighted that growing inflation pressures were our primary concern, a concern that has come to fruition and leaves us positioned more defensively.

The following is an overview of our second-half outlook and the changes we anticipate in markets…

U.S. Equity Markets

Heightened volatility
Growth underperformance
Value outperformance

Asset Class Return Annualized Return	Cycle May-23 present		Phase 1 May-23 Aug-24		Phase 2 Sep-24 Dec-24		Phase 3 2.1.25 - 5.29.26		Phase 4 6.1.26 - Present	
	Large Cap Growth 76.6% 19.5%	2	Large Cap Growth 45.1% 34.7%	1	Mid Cap Growth 21.9% 79.8%	2	Large Cap Growth 28.4% 18.4%	10	Large Cap Value 4.3% 37.5%	2
	S&P 500 70.3% 18.1%	3	S&P 500 32.4% 25.2%	3	Small Cap Growth 36.5% 11.1%	3	S&P 500 25.7% 16.7%	11	Small Cap Value 4.0% 34.5%	3
	All Cap 69.2% 17.9%	4	All Cap 32.1% 25.0%	4	Large Cap Growth 11.2% 37.1%	5	All Cap 23.9% 15.6%	12	Mid Cap Value 3.6% 31.1%	4
	Large Cap Value 62.6% 16.4%	6	Small Cap Value 28.2% 22.0%	5	Mid Cap Value 9.5% 30.9%	6	Large Cap Value 21.8% 14.3%	14	Small Cap Growth -1.1% -7.8%	18
	Small Cap Value 60.7% 16.0%	9	Small Cap Growth 26.7% 20.8%	6	All Cap 10.1% 33.0%	8	Small Cap Growth 20.7% 13.6%	15	All Cap -1.3% -9.3%	22
	Small Cap Growth 59.2% 15.6%	12	Mid Cap Growth 23.7% 18.5%	7	S&P 500 9.2% 29.9%	9	Small Cap Value 18.6% 12.2%	17	S&P 500 -1.6% -11.7%	25
	Mid Cap Value 53.6% 14.4%	13	Large Cap Value 12.3% 10.5%	12	Large Cap Value 11.1% 19.6%	12	Mid Cap Value 14.4% 9.5%	19	Mid Cap Growth -3.7% -25.1%	31
	Mid Cap Growth 45.4% 12.4%	17	Mid Cap Value 20.5% 7.2%	13	Small Cap Value 5.3% 16.6%	14	Mid Cap Growth 5.6% 3.8%	22	Large Cap Growth -6.6% -40.8%	32

Source: Thomson One

(A brief primer on reading the above data. Each box is an asset class. The number directly under the asset class name is the return during the time-period. The number below that is the annualized return. The number to the right of the asset class is its ranking for the time-period out of 35 total observed asset classes.)

Above is the performance of U.S. equity market asset classes thus far in the liquidity cycle that began in May 2023. Notably, after delivering strong **Phase 1** and **Phase 2** performance, the relative performance of U.S. equities has lagged during **Phase 3** and **Phase 4**.

AI Concentration in S&P 500

Source: DoubleLine Capital

Phase 4 has thus far proven more volatile for equities in general and particularly difficult for U.S. growth. This has been part of our forecast as the last phase of a market cycle is often most difficult for the asset class that has become the most extended during that cycle. The largest 10 AI companies currently make up a similar portion of the S&P 500 (see chart) as past major market bubbles, exacerbating the risk of a downturn.

Value stocks are benefiting from accelerating economic growth and their historical outperformance during periods of heightened market volatility.

International and Emerging Markets Equities

Heightened volatility
Value outperformance
Growth and Emerging Market underperformance

	Cycle May-23 present		Phase 1 May-23 Aug-24		Phase 2 Sep-24 Dec-24		Phase 3 2.1.25 - 5.29.26		Phase 4 6.1.26 - Present	
Asset Class Return Annualized Return	International Value 61.9% 16.3%	7	MSCI ACWI 25.0% 19.6%	7	Asia Pac ex-Japan Equity 8.6% 27.8%	10	Emerging Market Equity 58.6% 36.6%	2	International Value -0.2% -1.6%	11
	MSCI ACWI 61.8% 16.2%	8	Japanese Equity 20.6% 16.2%	11	MSCI ACWI 5.9% 18.6%	13	International Value 43.6% 27.7%	4	Asia Pac ex-Japan Equity -0.6% -4.9%	14
	Emerging Market Equity 59.4% 15.7%	11	International Value 9.9% 7.9%	14	MSCI ACWI ex-US 5.1% 15.9%	15	European Equity 41.6% 26.5%	5	European Equity -1.2% -8.7%	20
	European Equity 50.7% 13.7%	14	Emerging Market Equity 9.8% 7.7%	15	Emerging Market Equity 0.7% 2.2%	21	MSCI ACWI ex-US 37.9% 24.5%	6	International Equity -1.4% -10.2%	23
	MSCI ACWI ex-US 48.7% 13.2%	15	International Equity 9.2% 7.3%	17	International Value -0.8% -2.4%	29	Japanese Equity 33.4% 21.5%	7	MSCI ACWI -1.9% -13.9%	26
	Japanese Equity 48.0% 13.0%	16	International Growth 7.9% 6.3%	19	International Equity -1.7% -5.0%	30	International Equity 32.7% 21.1%	8	Japanese Equity -2.7% -18.6%	28
	International Equity 44.2% 12.1%	18	MSCI ACWI ex-US 7.3% 5.8%	20	Japanese Equity -1.8% -5.3%	31	MSCI ACWI 30.4% 19.6%	9	International Growth -2.7% -18.7%	29
	Asia Pac ex-Japan Equity 31.1% 8.8%	21	European Equity 6.2% 4.9%	22	International Growth -2.2% -6.3%	32	International Growth 22.0% 14.4%	13	MSCI ACWI ex-US -2.8% -19.4%	30
	International Growth 27.4% 7.9%	23	Asia Pac ex-Japan Equity -0.7% -0.5%	31	European Equity -3.1% -9.0%	33	Asia Pac ex-Japan Equity 16.4% 10.8%	18	Emerging Market Equity -7.7% -46.0%	33

Source: Thomson One

After underperforming U.S. equities during **Phase 1** and **Phase 2** of the cycle, International and Emerging Market equities outperformed in **Phase 3**.

The **Phase 4** outlook is less differentiated for International and Emerging Market stocks than prior phases as correlations tend to rise with volatility. When risk appetites shrink, growth stocks in Germany tend to perform more similarly to growth stocks in the U.S. The end of a liquidity cycle is also a period of strength in the U.S. Dollar, which can be a headwind for non-U.S. equities. For their part, Emerging Markets have a high exposure to technology and the AI space where the froth is frothiest.

While we maintain a secular bullish stance on International and Emerging Market equities, we also understand that conviction can be an anchor. Our expectations are for these asset classes to experience a period of heightened volatility like their U.S. equity peers.

Credit and Rates

Outperfmance of Short Duration Rate exposure
Lagging Credit performance

Asset Class Return Annualized Return	Cycle May-23 present		Phase 1 May-23 Aug-24		Phase 2 Sep-24 Dec-24		Phase 3 2.1.25 - 5.29.26		Phase 4 6.1.26 - Present	
	Emerging Market Bonds 10.7% 3.2%	25	Emerging Market Bonds 5.0% 4.0%	22	Int'l Investment Grade Bonds 2.6% 7.9%	15	Emerging Market Bonds 4.6% 3.1%	23	Ultra Short Bond -0.2% -1.2%	10
	High Yield Bonds 6.9% 2.1%	26	High Yield Bonds 4.2% 3.4%	23	High Yield Bonds 1.9% 5.8%	16	Inflation Protected Bonds 2.3% 1.5%	24	Short Duration Bond -0.5% -3.7%	12
	I-Grade Corp Bonds 4.1% 1.3%	27	Int'l Investment Grade Bonds 3.7% 3.0%	24	Emerging Market Bonds 1.9% 5.7%	19	I-Grade Corp Bonds 0.7% 0.5%	26	I-Grade Corp Bonds -0.6% -4.7%	13
	Short Duration Bond 1.8% 0.5%	28	Short Duration Bond 2.2% 1.7%	26	I-Grade Corp Bonds 0.5% 1.6%	21	High Yield Bonds 0.3% 0.2%	27	High Yield Bonds -0.8% -6.1%	15
	Int'l Investment Grade Bonds 1.2% 0.4%	29	I-Grade Corp Bonds 2.3% 1.8%	28	Inflation Protected Bonds 0.5% 1.6%	22	Short Duration Bond -0.1% -0.1%	28	Int'l Investment Grade Bonds -0.8% -6.2%	16
	Inflation Protected Bonds 0.6% 0.2%	30	Ultra Short Bond 0.6% 0.5%	29	Short Duration Bond 0.1% 0.4%	23	Ultra Short Bond -0.1% -0.1%	29	Total Bond -0.9% -6.4%	17
	Ultra Short Bond 0.5% 0.2%	31	Total Bond -0.9% -0.7%	31	Total Bond 0.1% 0.3%	24	Total Bond -0.1% -0.1%	30	Emerging Market Bonds -0.9% -6.9%	19
	Total Bond 0.0% 0.0%	32	Inflation Protected Bonds -1.8% -1.5%	32	Ultra Short Bond 0.0% 0.1%	25	Int'l Investment Grade Bonds -3.8% -2.6%	31	Long Duration Treasuries -1.4% -10.5%	24
	Long Duration Treasuries -18.1% -6.0%	34	Long Duration Treasuries -10.9% -8.9%	33	Long Duration Treasuries -0.9% -2.6%	26	Long Duration Treasuries -8.7% -6.0%	33	Inflation Protected Bonds -2.6% -18.5%	27

Source: Thomson One

Credit (peach shades above) has largely outperformed Rates (green shades above) in the first three phases of this liquidity cycle. While Rates typically outperform in **Phase 4**, we remain cautious on duration.

The defensive nature of Rates exposure can provide needed ballast in the storm of **Phase 4**, however, the national debt burden merits continued caution. Even with the Fed's support, Long Duration Treasuries have been a bottom performing asset class this cycle, suggesting duration risk is still present. We expect shorter duration Rate exposure to potentially deliver relative outperformanc as a "hold the line" allocation that may produce income with low volatility.

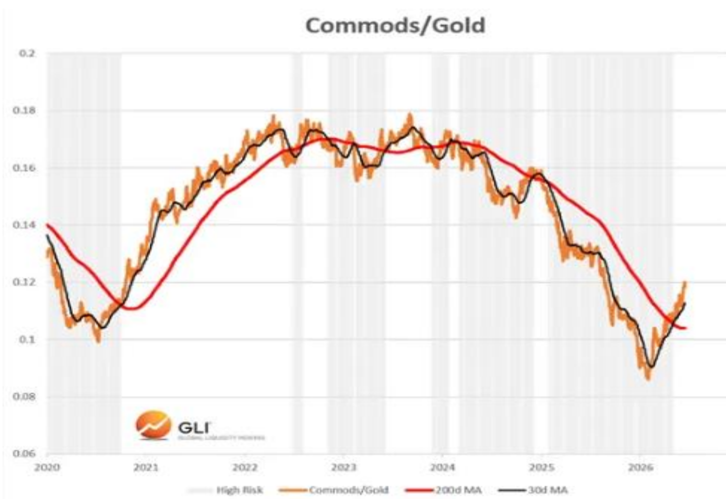
Dollar Debasement and Inflation Hedge

Outperformance of Commodities
Volatility in Gold
Dollar Strength

	Cycle May-23 present		Phase 1 May-23 Aug-24		Phase 2 Sep-24 Dec-24		Phase 3 2.1.25 - 5.29.26		Phase 4 6.1.26 - Present	
Asset Class	Gold		Gold		Bitcoin		Gold		US Dollar	
Return	107.3%	1	172.2%	1	48.5%	1	69.8%	1	2.0%	6
Annualized Return	25.6%		42.7%		222.9%		43.0%		24.1%	
	Commods		Gold		Gold		Commods		Commods	
	63.3%	5	22.6%	10	8.4%	11	50.4%	3	-1.3%	21
	16.6%		17.7%		27.0%		31.8%		-9.2%	
	Bitcoin		Commods		US Dollar		US Dollar		Gold	
	36.5%	20	8.0%	18	1.6%	19	-6.5%	32	-11.7%	34
	13.8%		6.4%		4.9%		-4.4%		-61.3%	
	US Dollar		US Dollar		Commods		Bitcoin		Bitcoin	
	-1.6%	33	2.4%	28	-1.7%	28	-24.6%	34	-12.7%	35
	-0.5%		1.9%		-5.0%		-17.4%		-64.5%	

Source: Thomson One

Commodity-to-Gold Ratio



Source: Capital Wars

Despite recent weakness, Gold remains the best performing asset class for this cycle. Bitcoin is highly correlated to liquidity. As such, we expect its underperformance may continue.

Commodities have historically performed well during **Phase 4**, as accelerating economic growth and rising inflation support commodity prices. "Commodities are displaying ther strongest upward momentum against Gold since 2021 / 22 and appear to be breaking higher from long-term downtrends," wrote Michael Howell of Capital Wars. (see chart) "That pattern is consistent with economic acceleration and supports the case for continued commodity outperformance.[4]"

Market Volatility and Hedges

Increase in Equity Volatility
Relative outperformance of Hedged strategies

[4] Michael Howell, "AI Capex, Tight Liquidity and the Next Commodity Surge," Capital Wars, July 16, 2026.

	Cycle May-23 present		Phase 1 May-23 Aug-24		Phase 2 Sep-24 Dec-24		Phase 3 2.1.25 - 5.29.26		Phase 4 6.1.26 - Present	
Asset Class	Equity Vol		Hedge Funds		Hedge Funds		Equity Vol		Equity Vol	
Return	36.6%	19	6.5%	20	1.7%	17	13.4%	20	22.5%	1
Annualized Return	10.2%		5.2%		5.1%		8.9%		371.6%	
	Hedge Strategies		Equity Vol		Treasury Vol		Hedge Strategies		Treasury Vol	
	20.5%	24	3.7%	25	-4.2%	33	11.5%	21	0.9%	7
	6.0%		2.9%		-12.0%		7.6%		7.4%	
	Treasury Vol		Treasury Vol		Equity Vol		Treasury Vol		Hedge Strategies	
	-36.1%	35	-18.8%	34	-17.4%	34	-26.8%	35	0.4%	9
	-13.0%		-15.4%		-43.3%		-19.0%		3.3%	

Source: Thomson One

Increased volatility is a defining characteristic of **Phase 4** of the market cycle. It has arrived.

Hedged strategies are designed to manage volatility and are outperforming the S&P 500 during this Phase[5]. We would not be surprised if this performance gap widens as the year progresses.

Treasury Volatility is being suppressed by the Fed's Treasury bond purchases, hence its rock-bottom performance as an asset class. Were Treasury Vol to experience a notable, prolonged increase, it would be a sign that official control of the Treasury market was weakening.

Real Assets

Outperformance of Equities

	Cycle May-23 present		Phase 1 May-23 Aug-24		Phase 2 Sep-24 Dec-24		Phase 3 2.1.25 - 5.29.26		Phase 4 6.1.26 - Present	
Asset Class	US Infra		US Infra		US Infra		US Infra		Real Estate	
Return	59.7%	10	24.5%	8	11.7%	3	18.1%	17	3.0%	5
Annualized Return	15.8%		19.2%		39.0%		11.9%		25.3%	
	Real Estate		Real Estate		Real Estate		Real Estate		US Infra	
	27.4%	22	8.9%	16	9.0%	7	2.2%	25	0.8%	8
	7.9%		7.1%		29.2%		1.5%		6.3%	

Source: Thomson One

Real Assets are a timely addition to Meridian's asset class monitor. **Phase 4** is typically a period of outperformance for Real Estate and Infrastructure investments. The need to power AI, and to invest in decaying infrastructure, could continue to drive returns long after this liquidity cycle ends.

[5] Thomson One

The Meridian investment team's current investment forecast is not our rosiest. Rising inflation and accelerating economic growth have put the equity markets within the liquidity cycle's **Phase 4** cone of uncertainty. Our outlook calls for pragmatism. While we cannot know for certain when, where or if a storm is going to hit, we understand the increasing risk markets are facing.

In **Phase 4** it has historically been better to be prepared than to be surprised.

Well the wind is blowin' harder now
50 knots or there about
There's white caps on the ocean
And I am watchin' for water spouts

It's time to close the shutters
It's time to go inside
In a week I'll be in gay Paris
And that's a mighty long airplane ride

-Trying to Reason with the Hurricane Season, Jimmy Buffett

About The Author:

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Patrick Fleming is The Meridian Wealth Management Group's Investment Consultant. He has over 25 years of financial industry experience and holds a Chartered Financial Analyst (CFA)* designation.

Patrick has been with Morgan Stanley since 2020. He received a BBA in Finance from Stetson University. Patrick was drawn to the financial industry by his curiosity in global markets.

* This role cannot solicit or provide investment advice.