



*Well, the first days are the hardest days
Don't you worry anymore.
'Cause when life looks like Easy Street
There is danger at your door.
-Uncle John's Band, Grateful Dead*

The Barnacle and the Tide

Five hundred million years is a fairly long time for a species to exist. This is the best scientific estimate of the amount of time barnacles have inhabited the Earth. For reference, archeologists believe dinosaurs showed up some two hundred and seventy million years after barnacles. Relatively adolescent, the earliest form of humans is believed to have started walking the planet seven million years ago.

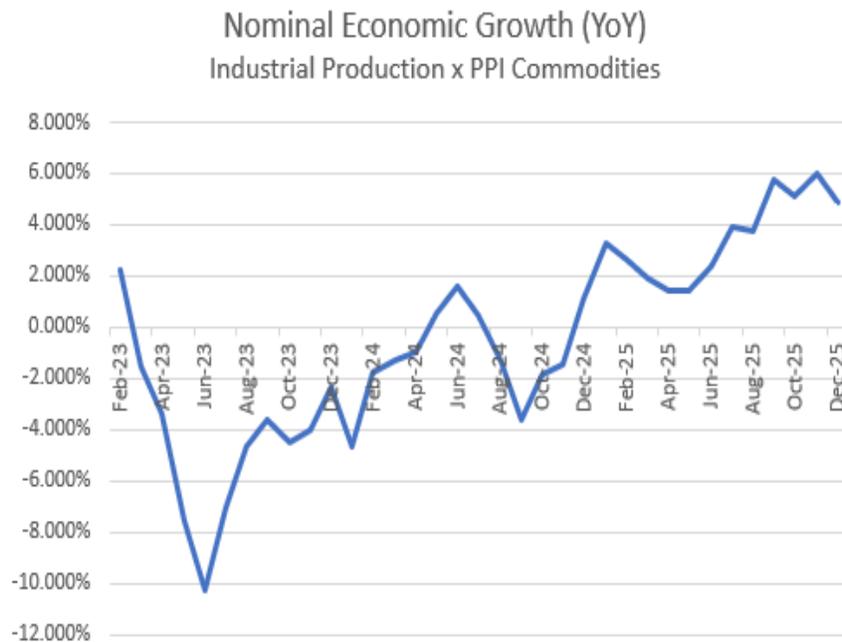
The acorn barnacle (the most common barnacle type) comes into the world as a free-wheeling larvae. She floats ocean currents, hangs with her larval friends and films TikTok dance videos (probably). After a few weeks, her instincts tell her it is time to settle down. She is entering her cyprid era and will soon form a shell. Finding the right home in a good neighborhood is the most important decision our growing barnacle will ever make. Once she chooses her spot, she is immobile, affixed for life.

Immobility is inherently vulnerable. Half an eon of evolutionary adaptation has taught the acorn barnacle to Zillow search in the intertidal zone. Real estate being all about location, the intertidal zone is her Manhattan. Here she will be submerged when the tide rises and emergent when the tide ebbs.



While submerged she will physically and metaphorically come out of her shell as she snacks on the food brought to her by the current and socializes with her young barnacle neighbors. The barnacle Mahjong seshes are no doubt a blast, but she must be careful. Danger lurks! The longer she remains exposed the more susceptible she is to the sea stars and fish that are her natural predators. But not to worry, like clockwork the ebbing tide signals to her that the party is over. Emergence will bring its own risks...sun exposure, avian predation. To avoid these, she retreats into the defense of her shell where she will rest and **wait for the tide to rise again.**

Financial markets are affixed in the intertidal zone of liquidity. When the tide is rising and high, risk is rewarded. The currents usher to investors dense calories of returns as risk-oriented portfolios flourish. An ebbing liquidity tide is, however, an investor’s signal that the party is winding down...that the coach of risk could again soon turn into a pumpkin.



While monetary stimulus and weak economic growth are the gravitational forces pulling liquidity into markets, **accelerating economic growth and inflation syphon liquidity out.**

Since the current cycle low of -10.2% in June 2023, the inflation-adjusted economic growth rate has sharply rebounded (see chart), averaging 5.4% for the fourth quarter of last year¹.

Source: Federal Reserve Bank of St. Louis

This robust growth is by design. At the turn of the century the U.S. debt burden was an unhealthy 50% of economic output. Today, this ratio has ballooned to 120% as perpetually high deficits have added fat to our financial waistline². There are no GLP-1s we can take as a nation to solve this debt problem. The exercise of old-fashioned economic growth is our healthiest path forward.

¹ Federal Reserve Bank of St. Louis, Meridian Wealth Management.

² Federal Reserve Bank of St. Louis, Meridian Wealth Management.



“We are trying to accelerate growth because changing the growth trajectory upward solves many of the deficit problems,” Treasury Secretary Scott Bessent told ABC News in a [January interview](#)³. To his end, the administration’s signature legislation, the One Big Beautiful Bill Act (OBBBA), is designed to be a growth stimulant. With sweeping tax cuts, permanent expensing for business investments and much-needed deregulation, the goal of the legislation is to raise sustained economic output to 5.0%.

A key component of this effort is the Treasury’s direct investment in the re-shoring of industrial and technology supply chains. Defense systems, technological devices and artificial intelligence infrastructure all rely on the backbone of midstream commodity and rare Earth minerals processing. China currently controls virtually all of this production. “While Western nations and their allies control a significant percentage of the world’s raw geology...China has successfully monopolized the heavy industrial capacity to refine, smelt, separate, and purify these materials into usable forms,” wrote metals investor Craig Tindale. “The West sits on vast geological deposits, but Beijing holds the keys to unlock them.”⁴ When the best financed and run military in the world is reliant on its geopolitical adversary to supply munitions, the investment in domestic production must quickly ramp.

Under Federal Reserve Chair nominee Kevin Warsh, monetary policy may shift significantly to help fund this investment. Warsh believes that the Fed’s balance sheet has become bloated and its role in markets is too significant. As such, he will look to shut down the eighteen-year fire hose of liquidity that has propelled the 400+% rally in the S&P 500 since the Great Financial Crisis⁵. At the same time, he will look to stimulate economic growth with significant cuts to interest rates, and he will use freed-up balance sheet capacity to directly fund Treasury investments in strategically important infrastructure.

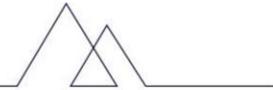
“Warsh wants Main Street not (only) Wall Street to prosper,” wrote Michael Howell, CEO of CrossBorder Capital. “This must underscore the policy switch to [support] a deliberate fiscal spend on key items, like defense, plus strategic stakes in technology leaders and critical minerals that will be funded through Treasury bills.”⁶

³ Selena Wang, “Bessent says Americans ‘should be worried about affordability,’ but blames Biden for cost issues,” ABC News, January 28, 2026.

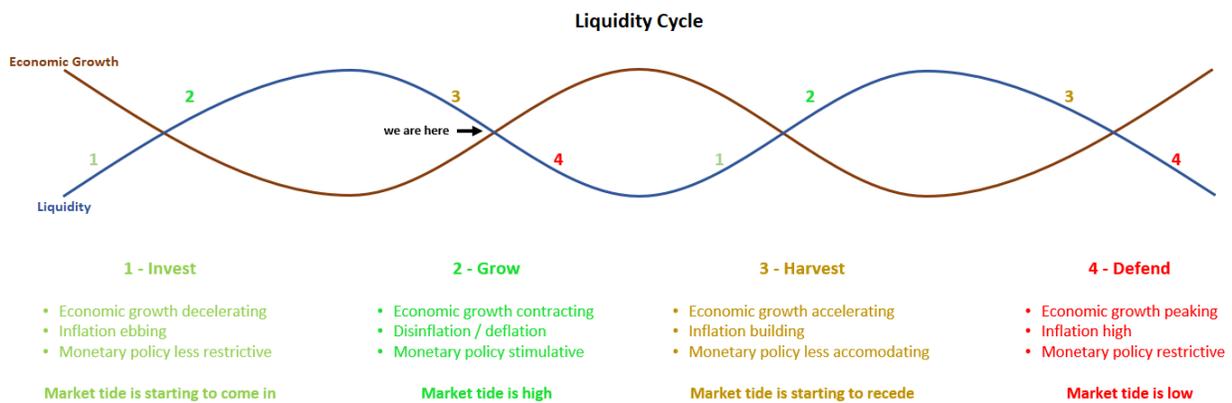
⁴ Craig Tindale, “The Return of Matter: Western Democracies’ Material Impairment,” *Substack*, December 16, 2025.

⁵ Thomson One.

⁶ Michael Howell, “The World According to Warsh,” *Capital Wars*, January 31, 2026.



Investors would be right to view this policy shift with caution. In the two short weeks since the announcement of the Warsh nomination the tech-heavy Nasdaq Composite has fallen -5.3% and equity market volatility has risen 27.3%. Long duration Treasury bonds (considered a more defensive asset class) have rallied 2.0%⁷.



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.

We enter 2026 in **Phase 3** of Meridian Wealth Management’s proprietary analysis of the liquidity cycle. However, due to accelerating economic growth and persistent inflation, it is highly probable the cycle will enter **Phase 4** at some point this year. Given this outlook, we are **less bullish** today than we were in the fourth quarter. That said, while we see increased risk for specific asset classes, we see opportunity in others as a likely volatile year for equities highlights the utility of active asset allocations.

⁷ Thomson One



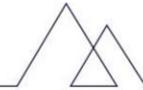
Liquidity

	Phase	Liquidity		Money Growth		Economic Growth		Inflation	
		Level	Rank	Level	Rank	Level	Rank	Level	Rank
Dec-25	3	-0.7479%	5	4.60%	3	1.991%	5	3.2957%	6
Nov-25	3	-1.4931%	5	4.27%	3	2.679%	5	3.0038%	6
Oct-25	3	-1.1886%	5	4.64%	3	2.058%	5	3.6995%	7
Sep-25	3	-0.1404%	6	4.49%	3	1.973%	5	2.6055%	6
Aug-25	3	1.2955%	6	4.43%	3	1.151%	4	1.9575%	5
Jul-25	3	0.7376%	6	4.48%	3	1.919%	4	1.7885%	5
Jun-25	3	2.3196%	7	4.22%	3	0.579%	4	1.3180%	5
May-25	3	3.3395%	8	3.99%	2	0.102%	3	0.5502%	4
Apr-25	3	1.7824%	7	4.02%	2	0.882%	4	1.3446%	5
Mar-25	3	1.1363%	6	3.52%	2	0.580%	4	1.7935%	5
Feb-25	3	0.1312%	6	3.37%	2	0.812%	4	2.4090%	6
Jan-25	3	1.1775%	6	3.46%	2	0.849%	4	1.4236%	5
Dec-24	2	3.6271%	8	3.49%	2	-0.274%	3	0.1404%	4
Nov-24	2	5.8076%	8	3.44%	2	-1.558%	3	-0.8272%	3
Oct-24	2	6.3856%	9	3.00%	2	-0.995%	3	-2.4145%	2
Sep-24	2	4.6421%	8	2.59%	1	-1.200%	3	-0.8604%	3
Aug-24	1	1.0819%	6	2.04%	1	-0.405%	3	1.3733%	5
Jul-24	1	1.6240%	7	1.50%	1	-0.923%	3	0.8091%	4
Jun-24	1	-0.1251%	6	1.30%	1	0.773%	4	0.6477%	4
May-24	1	0.9444%	6	0.91%	1	-0.065%	3	0.0272%	4
Apr-24	1	2.7166%	7	0.96%	1	-0.997%	3	-0.7652%	3
Mar-24	1	2.1155%	7	0.12%	1	-0.557%	3	-1.4470%	2
Feb-24	1	2.2442%	7	-1.53%	1	-0.354%	3	-3.4282%	2
Jan-24	1	2.3129%	7	-2.04%	1	-1.276%	3	-3.1140%	2
Dec-23	1	0.6692%	6	-2.44%	1	0.839%	4	-3.9144%	2
Nov-23	1	0.7146%	6	-3.10%	1	-0.090%	3	-3.7233%	2
Oct-23	1	0.6544%	6	-3.44%	1	-0.774%	3	-3.3460%	2
Sep-23	1	0.9390%	6	-3.72%	1	-0.267%	3	-4.4022%	1
Aug-23	1	3.0299%	7	-3.98%	1	-0.254%	3	-6.7722%	1
Jul-23	1	5.6813%	8	-4.02%	1	-0.312%	3	-9.4169%	1
Jun-23	1	4.0170%	8	-3.97%	1	-0.889%	3	-7.1659%	1
May-23	1	-0.5475%	5	-4.10%	1	-0.400%	3	-3.1669%	2

Source: Federal Reserve Bank of St. Louis

The liquidity cycle has been in **Phase 3** for twelve months. (See above 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. In the fourth quarter we noted that growing inflation pressures were our primary concern. With the administration laser focused on stimulating economic growth it is hard to see how these pressures soon abate. Again, there is a high probability the liquidity tide continues to ebb, sending this cycle into **Phase 4** at some point in 2026.

Below is an overview of our 2026 outlook and the changes we anticipate in markets...



U.S. Equity Markets

Large Cap Growth underperformance
 Relative outperformance of Large Cap Value
 Small Cap and Mid Cap outperformance

	Cycle May-23 present	Phase 1 May-23 Aug-24	Phase 2 Sep-24 Dec-24	Phase 3 Jan-25 present
Asset Class	Large Cap Growth	Large Cap Growth	Mid Cap Growth	Large Cap Value
Return	68.9%	45.1%	21.9%	17.5%
Annualized Return	20.9%	34.7%	79.8%	17.3%
	2	1	2	10
	S&P 500	S&P 500	Small Cap Growth	S&P 500
	58.3%	32.4%	36.5%	14.9%
	18.1%	25.2%	11.1%	12.6%
	4	3	3	12
	All Cap	All Cap	Large Cap Growth	Large Cap Growth
	57.2%	32.1%	11.2%	14.6%
	17.8%	25.0%	37.1%	12.3%
	5	4	4	13
	Large Cap Value	Small Cap Value	Mid Cap Value	All Cap
	46.8%	28.2%	9.5%	13.6%
	14.9%	22.0%	30.9%	11.4%
	10	5	5	14
	Small Cap Value	Small Cap Growth	All Cap	Mid Cap Value
	44.7%	26.7%	10.1%	8.5%
	14.3%	20.8%	33.0%	7.2%
	12	6	7	16
	Small Cap Growth	Mid Cap Growth	S&P 500	Small Cap Value
	43.4%	23.7%	9.2%	11.1%
	14.0%	18.5%	29.9%	9.4%
	13	8	8	17
	Mid Cap Growth	Large Cap Value	Large Cap Value	Small Cap Growth
	43.3%	12.3%	11.1%	7.6%
	13.9%	10.5%	19.6%	6.5%
	14	11	11	18
	Mid Cap Value	Mid Cap Value	Small Cap Value	Mid Cap Growth
	40.6%	20.5%	5.3%	0.2%
	13.1%	7.2%	16.6%	0.2%
	16	12	13	26

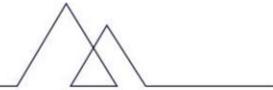
Source: Thomson One

(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 33 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 dominating **Phase 1** and **Phase 2** performance, the relative performance of U.S. equities has lagged considerably during **Phase 3**.

Phase 4 of a market cycle is often most difficult for the asset class that has become the most extended during that cycle. With the “Mag Seven” stocks now accounting for an unhealthy 34% of the S&P 500⁸, this asset class is vulnerable to a set-back.

⁸ Standard & Poor’s.



The Large Cap Value, Small Cap and Mid Cap asset classes traditionally benefit from an economic growth acceleration. The deployment of artificial intelligence (AI) capabilities could also have a meaningful impact on these companies' profitability in 2026.

International and Emerging Markets Equities

Continued outperformance of U.S. equities

Emerging Market outperformance

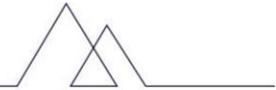
Asset Class	Cycle May-23 present	Phase 1 May-23 Aug-24	Phase 2 Sep-24 Dec-24	Phase 3 Jan-25 present
International Value	60.6%	25.0%	8.6%	42.2%
Emerging Market Equity	51.3%	20.6%	5.9%	40.7%
MSCI ACWI	16.4%	19.6%	18.6%	38.9%
European Equity	49.4%	9.8%	-0.8%	29.9%
Japanese Equity	46.2%	9.2%	-1.7%	28.3%
International Equity	43.2%	7.9%	-1.8%	20.9%
Asia Pac ex-Japan Equity	29.3%	6.2%	-2.2%	18.2%
International Growth	26.8%	4.9%	-6.3%	15.3%
International Value	18.7%	7.9%	-2.4%	34.9%
Emerging Market Equity	16.2%	7.7%	-5.0%	33.8%
MSCI ACWI	16.4%	7.3%	-5.3%	32.2%
European Equity	15.6%	7.3%	-5.0%	25.0%
Japanese Equity	14.7%	7.3%	-5.0%	23.6%
International Equity	13.9%	6.3%	-5.3%	23.6%
Asia Pac ex-Japan Equity	9.8%	4.9%	-6.3%	23.6%
International Growth	9.0%	-0.7%	-9.0%	11.9%

Source: Thomson One

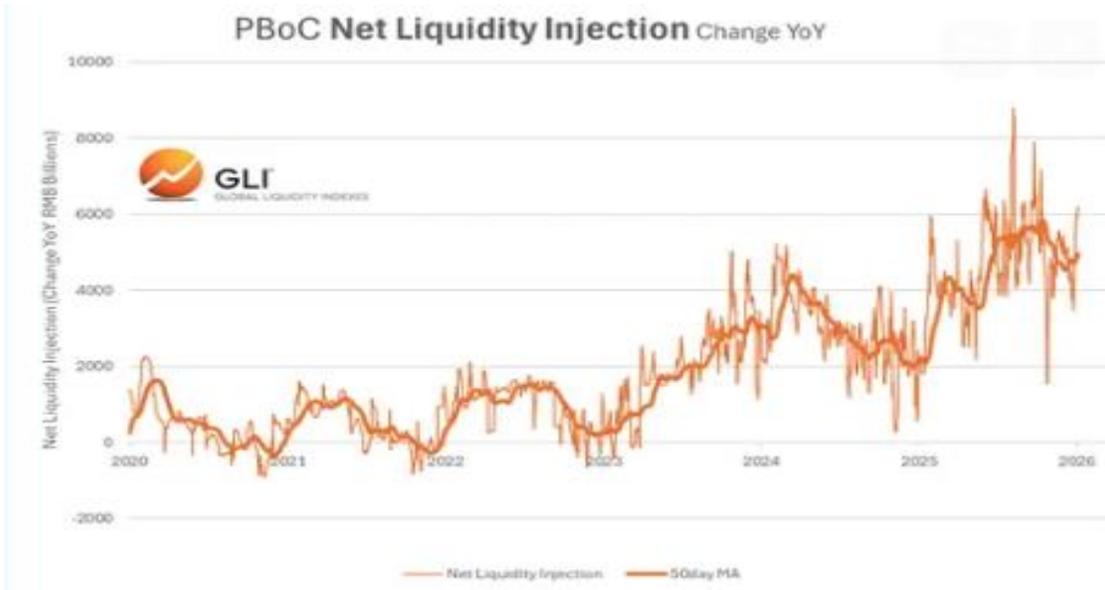
After underperforming U.S. equities during **Phase 1** and **Phase 2** of the cycle, International and Emerging Market equities have significantly outperformed in **Phase 3**.

We continue to believe that International equities will outperform for the foreseeable future. In January, the European Union and a group of South American nations signed one of the world's largest free trade agreements, another in a series of International trade deals signed since Liberation Day last April. Increased trade, higher defense spending, a strong middle class consumer and less market concentration all point to a bullish backdrop for International equities.

Emerging Markets are the beneficiaries of China's early phase liquidity cycle as their central bank is injecting massive amounts of liquidity in markets.. "The People's Bank of China (PBoC) has injected an estimated US \$1 trillion into the financial system over the past twelve months," wrote

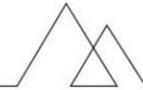


Michal Howell. “We expect at least another US \$1 trillion in liquidity injections, comparable to the US response after the 2008/9 Global Financial Crisis.”⁹ (See chart)



Source: Capital Wars

⁹ Michael Howell, “From Zig to Zag,” *Capital Wars*, January 6, 2026.



Credit and Rates

Outperformance of Rate exposure
Lagging Credit performance

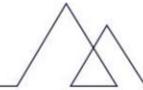
Asset Class	Cycle May-23 present	Phase 1 May-23 Aug-24	Phase 2 Sep-24 Dec-24	Phase 3 Jan-25 present
Emerging Market Bonds	12.0% 4.2%	5.0% 4.0%	2.6% 7.9%	4.9% 4.2%
High Yield Bonds	8.5% 3.0%	4.2% 3.4%	1.9% 5.8%	1.8% 1.5%
I-Grade Corp Bonds	5.7% 2.0%	3.7% 3.0%	1.9% 5.7%	1.6% 1.4%
Short Duration Bond	3.0% 1.1%	2.2% 1.7%	0.5% 1.6%	1.0% 0.8%
Inflation Protected Bonds	2.8% 1.0%	2.3% 1.8%	0.5% 1.6%	0.9% 0.8%
Int'l Investment Grade Bonds	2.0% 0.7%	0.6% 0.5%	0.1% 0.4%	0.6% 0.6%
Total Bond	2.0% 0.7%	-0.9% -0.7%	0.1% 0.3%	-3.9% -3.4%
Ultra Short Bond	0.7% 0.3%	-1.8% -1.5%	0.0% 0.1%	-0.1% -0.1%
Long Duration Treasuries	-15.1% -5.8%	-10.9% -8.9%	-0.9% -2.6%	-6.8% -5.9%

Source: Thomson One

Credit (peach shade above) has largely outperformed Rates (green shade above) in the first three phases of the liquidity cycle.

Within this mix, Rate exposure has been increased while Credit exposure has fallen. Rate exposure generally refers to Treasury securities while Credit exposure generally refers to corporate bonds.

The “risk-off” nature of the market cycle’s **4th Phase** is favorable to Rates as investors seek a more defensive allocation. While accelerating economic growth can be beneficial to Credit, the asset class typically underperforms during this phase and is highly correlated to U.S. equity market performance.



Dollar Debasement and Inflation Hedge

Continued strong performance for Gold
Strong performance from Commodities
Persistent Dollar weakness

	Cycle May-23 present	Phase 1 May-23 Aug-24	Phase 2 Sep-24 Dec-24	Phase 3 Jan-25 present
Asset Class	Gold	Bitcoin	Bitcoin	Gold
Return	150.4%	39.6%	48.5%	85.5%
Annualized Return	39.8%	30.6%	222.9%	69.2%
	1	2	1	1
Asset Class	Bitcoin	Gold	Gold	Commod
Return	78.3%	22.6%	8.4%	17.9%
Annualized Return	32.7%	17.7%	27.0%	15.0%
	2	9	10	11
Asset Class	Commod	Commod	US Dollar	US Dollar
Return	32.5%	8.0%	1.6%	-7.7%
Annualized Return	10.8%	6.4%	4.9%	-6.6%
	17	17	17	31
Asset Class	US Dollar	US Dollar	Commod	Bitcoin
Return	-5.2%	2.4%	-1.7%	-28.1%
Annualized Return	-1.9%	1.9%	-5.0%	-24.5%
	31	26	26	32

Source: Thomson One

Gold has been the best performing asset class for this cycle. While Bitcoin is the second-best performer this cycle, it's second-to-last performance during **Phase 3** highlights it's inherent volatility.

We continue to believe that Gold is one of the best hedges against ongoing dollar debasement. The shift in policy towards more direct economic growth stimulus coupled with persistent inflationary pressures is bullish for the prices of everyday commodities like corn, oil, etc. Commodities also historically perform well in **Phase 4** of the market cycle.

Market Volatility and Hedges

Increase in Equity Volatility
Relative outperformance of Hedged strategies

	Cycle May-23 present	Phase 1 May-23 Aug-24	Phase 2 Sep-24 Dec-24	Phase 3 Jan-25 present
Asset Class	Equity Vol	Hedge Funds	Hedge Funds	Equity Vol
Return	29.3%	6.5%	1.7%	31.5%
Annualized Return	9.7%	5.2%	5.1%	26.2%
	19	19	16	5
Asset Class	Hedge Funds	Equity Vol	Treasury Vol	Hedge Funds
Return	16.6%	3.7%	-4.2%	8.5%
Annualized Return	5.7%	2.9%	-12.0%	7.2%
	21	24	32	18
Asset Class	Treasury Vol	Treasury Vol	Equity Vol	Treasury Vol
Return	-42.6%	-18.8%	-17.4%	-33.2%
Annualized Return	-18.2%	-15.4%	-43.3%	-29.1%
	33	33	33	32

Source: Thomson One



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

Hedged strategies are outperforming the S&P 500 year-to-date¹⁰. We would not be surprised if this performance gap widens as the year progresses.

As financial markets emerge from three years of robust returns there are warning signs that the liquidity tide is ebbing. Portfolios must adapt to this changing environment. While the “everything rally” of the past few years has rewarded risk appetites, we do not want to overstay our welcome. Danger lurks.

Like our barnacle friend we have positioned strategies more defensively to help protect assets and will wait for a time when the liquidity tide rises again.

*Come hear Uncle John's Band
Playing to the tide
Come with me or go alone
He's come to take his children home*

About The Author:



Patrick Fleming, CFA®
*Vice President
Investment Consultant*

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.

¹⁰ Thomson One.



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