



Rotation is the new momentum – software vs. semiconductors

BY JASON RICHEY, CFA, PORTFOLIO MANAGER

The Big Picture:

- To much alarm, total US debt crossed the \$40 trillion mark in August.
- The US Treasury announced plans to buy long-term Treasury bonds by selling short-term Treasury bills.
- We have concerns about policy unknowns and higher interest rates exposing weaknesses within financial markets.
- We are monitoring the defense sector as well as cybersecurity for potential opportunity.

“The long-term Treasury yield is the most important price in the world. It is also the only fiscal disciplinarian the US has left. Neither party will run on entitlement reform. Both have spent the past decade expanding commitments while ignoring arithmetic.”

— Stanley Druckenmiller, August 2026

The 60-day memorandum of understanding between the US and Iran expired mid-month, but fiscal concerns carried the news headlines in August. The quote above, published in the Wall Street Journal, was written by an infrequent author and famed investor. Aside from its eloquence, there was not anything particularly notable in terms of substance. US debt and deficit problems have been well known and discussed for years. However, US debt officially crossed \$40 trillion in August, a proper, round number that reignited debate around the country’s fiscal health and direction. Paired with Japanese currency interventions, rising bond yields, and a “Treasury twist” – its attempt to reduce borrowing costs

by buying back its long-term bonds – noise around US debt and deficits felt a little louder than usual. Still, it’s a recurring argument, frequently rehashed since the financial crisis nearly 20 years ago to little effect. The math may be more challenging today, but the lack of political will remains steadfast.

However, what has changed is the yield environment. Rising bond yields and rising oil prices explain a healthy portion of the Inflation within our August Macroeconomic Scenario Analysis (MES). Our Inflation scenario keeps waffling around 50%. Though we hope inflationary forces are abating, tariff-induced inflation and a glut of corporate bond issuance add to odds that we have entered a systematically higher interest rate environment. Still, higher interest rates aren’t an economic death knell. The US economy performed quite well in the 1990s and early 2000s with similar or even higher interest rates.

The other notable MES change this month is the rise in our Chaos probability to 17%. It’s an unusually high probability within our models, but policy risks are greater unknowns, and the US Treasury has opened the door to currency and bond market intervention. Supposing these moves are necessary, for whatever reason, they don’t suggest a perfectly functioning financial system.

In terms of portfolio positioning, we continue to watch the day-to-day rotation within the technology sector between software and semiconductors. The performance differential between the two industries can be stark, often averaging north of 3% on any given trading day. The technology sector as a whole has chopped around for much of the past three months. Still, we’re monitoring technol-

ogy for a break one way or the other as these two industries duke it out. We may see an opportunity arise within an area like cyberse-
curity. Meanwhile, after weeks of calm, the US struck Iranian rocket
launchers at the end of August, a reminder of a conflict with no end
in sight. Given the recent pullback in the defense sector, it could be
another attractive opportunity for portfolios.

US debt and deficit dynamics were a focus for markets in August.
The US has moved from less than \$10 trillion in debt 20 years
ago, to about \$40 trillion in debt today with no end in sight. The
numbers are daunting, but the reality is that investors survived

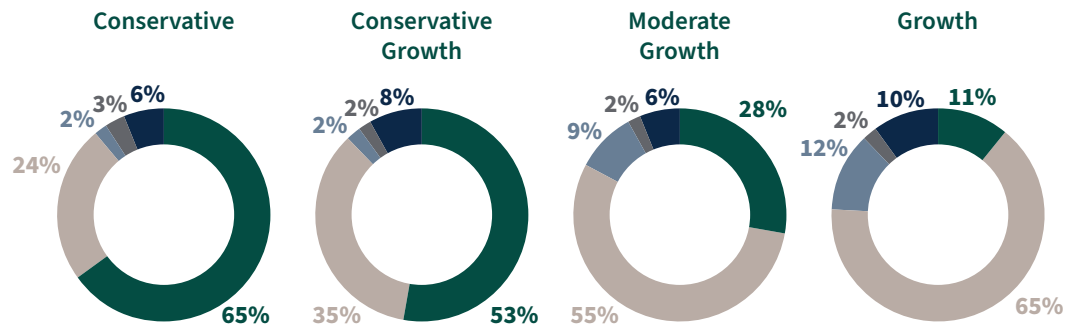
crossing the \$20 trillion debt threshold in 2017, and the \$30 trillion
debt threshold in 2022. They didn't just survive, they thrived. The
S&P 500 Index has returned about 260% since the \$20 trillion
threshold, and about 80% since the \$30 trillion threshold. Yes,
it's hard to be optimistic about the US fiscal trajectory. However,
investors searching for nuggets of optimism can take solace that at
least some government largesse ended in investors' pockets.

Global Tactical Strategies

Asset Allocation Shifts

As of August 2026

■ Total US Equity ■ Total Fixed Income ■ Total International Equity ■ Cash ■ Gold



Asset Class	Symbol	Prior Month	Current Month	Change	Prior Month	Current Month	Change	Prior Month	Current Month	Change	Prior Month	Current Month	Change
S&P 500	IVV	9	9	0	11	11	0	23	23	0	25	25	0
S&P 400	IJH	3	3	0	4	4	0	4	4	0	7	7	0
S&P 600	IJR	0	0	0	4	4	0	5	5	0	5	5	0
MSCI IEFA	IEFA	2	2	0	2	2	0	6	6	0	12	12	0
US Healthcare	XLV	5	5	0	6	6	0	6	6	0	8	8	0
Nasdaq 100	QQQ	0	0	0	0	0	0	2	2	0	2	2	0
S&P Aerospace & Defense	XAR	3	3	0	4	4	0	7	7	0	7	7	0
Financial Select Sector	XLF	2	2	0	4	4	0	5	5	0	7	7	0
U.S. Infrastructure Dev.	PAVE	2	2	0	2	2	0	3	3	0	4	4	0
TOTAL EQUITIES		26	26	0	37	37	0	61	61	0	77	77	0
Short-Term TIPS	STIP	16	16	0	13	13	0	10	10	0	5	5	0
US Aggregate Bonds	AGG	26	26	0	20	20	0	13	13	0	6	6	0
US 1-3 Year Treasury Bonds	SHY	8	8	0	5	5	0	0	0	0	0	0	0
Treasury Floating	TFLO	4	4	0	3	3	0	0	0	0	0	0	0
0-3 Month Treasury Bond	SGOV	11	11	0	12	12	0	5	5	0	0	0	0
TOTAL FIXED INCOME		65	65	0	53	53	0	28	28	0	11	11	0
Gold	IAU	6	6	0	8	8	0	9	9	0	10	10	0
Cash	CASH	3	3	0	2	2	0	2	2	0	2	2	0

The portfolios reflect the inherent risks of fluctuating prices and uncertainty of rates of returns. The cash portion of this portfolio is represented by money market instruments.

Macroeconomic Scenario Analysis

On a monthly basis, the Cougar Global investment team establishes the probabilities of the future path of the US economy over the next year and quantifies its independent global research into the following five scenarios:



GROWTH

4%

Last month 4%
Change 0%



INFLATION

49%

Last month 48%
Change +1% ▲



STAGNATION

20%

Last month 22%
Change -2% ▼



CHAOS

17%

Last month 16%
Change +1% ▲



RECESSION

10%

Last month 10%
Change 0%

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Cougar Global Investments calculates the Macro Economic Scenario (MES) analysis by assigning probabilities to each of the five economic scenarios (Growth, Stagnation, Inflation, Chaos and Recession) over the next 12 months. Macroeconomic scenarios are based on quantitative data sourced from various firms and then weighted and may be adjusted based upon Cougar Global Investments thought capital. MES are subject to change. These are hypothetical examples and are not representative of any specific situation. Actual economic results may vary. Economic forecasts set forth may not develop as Cougar MES indicates and there can be no guarantee that these strategies promoted will be successful. Past performance is no guarantee of future results. Macro Economic Scenarios: Growth – U.S. economy is growing at or above its potential growth rate, Recession – U.S. economy is shrinking (negative quarter over quarter growth rate), Stagnation – U.S. economy is growing at lower than its potential growth rate, Inflation – Consumer Price Index (CPI) inflation rate is higher than U.S. economy's potential growth rate, Chaos – a high impact, low probability event ("Black Swans").

Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Small-capitalization companies are subject to higher volatility than those of large-capitalized companies. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be appropriate for all investors. Stock investing involves risk, including the risk of loss. Investments in emerging market issuers are subject to a greater risk of loss than investments in issuers located or operating in more developed markets. This is due to, among other things, the potential for greater market volatility, lower trading volume, higher levels of inflation, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments in emerging market countries. High Yield/Junk Bonds

are not investment grade securities, involve substantial risks and generally should be part of the diversified portfolio of sophisticated investors. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments. The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, CMBS, ABS and investment grade corporates. The MSCI ACWI® (All Country World Index) measures the performance of large and mid-cap stocks across 23 developed markets (DM) and 24 emerging markets (EM) countries. The S&P 500 or Standard & Poor's 500 Index (IVV) is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The iShares Core S&P Mid-Cap ETF (IJH) seeks to track the investment results of an index composed of mid-capitalization U.S. equities. The iShares Core S&P Small-Cap ETF (IJR) seeks to track the investment results of an index composed of small-capitalization U.S. equities. The iShares Global Consumer Staples ETF (KXI) seeks to track the S&P Global 1200 Consumer Staples (Sector) Capped Index™. The iShares Core MSCI EAFE ETF (IEFA) seeks to track the investment results of an index composed of large-, mid- and small-capitalization developed market equities, excluding the U.S. and Canada. The Health Care Select Sector SPDR® Fund (XLV) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the Health Care Select Sector Index (the "Index"). The S&P Aerospace & Defense Select Industry® Index (XAR) represents the aerospace & defense segment of the S&P Total

Stock Market Index™. The Financials Sector Index (XLF) seeks to provide an effective representation of the financial sector of the S&P 500 Index. The Index includes companies from the following industries: financial services; insurance; banks; capital markets; mortgage real estate investment trusts (“REITs”); and consumer finance. The Nasdaq-100 (QQQ) is a globally recognized index that tracks the performance of 100 of the largest non-financial companies listed on the Nasdaq Stock Market® encompassing a diverse range of industries and sectors. The Global X U.S. Infrastructure Development ETF (PAVE) seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Indxx U.S. Infrastructure Development Index. The iShares MSCI Emerging Markets ex China ETF (EMXC) seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities, excluding China. The iShares 0-3 Month Treasury Bond ETF (SGOV) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities less than or equal to three months. The iShares 0-5 Year TIPS Bond ETF (STIP) seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds with remaining maturities of less than five years. The iShares Core U.S. Aggregate Bond ETF (AGG) seeks to track the investment results of an index composed of the total U.S. investment-grade bond market. The SPDR® Bloomberg 1-10 Year TIPS ETF (TIPX) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the Bloomberg 1-10 Year U.S. Government Inflation-Linked Bond Index. The iShares 1-3 Year Treasury Bond ETF (SHY) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years. The iShares Treasury Floating Rate Bond ETF (TFLO) seeks to track the investment results of an index composed of U.S. Treasury floating rate bonds. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Cougar Global optimizes portfolios in US dollars for four risk categories. GTS – Conservative may be appropriate for clients who have accumulated sufficient wealth to begin making regular withdrawals for income requirements while potentially achieving investment returns sufficient to preserve capital over a full investment cycle. GTS – Conservative Growth may be appropriate for clients who may have occasional income needs and are willing to take moderate downside risk to achieve investment returns. GTS – Moderate Growth may be appropriate for clients who have a long term investment horizon and can tolerate downside volatility in the course of a market cycle. GTS – Growth may be appropriate for clients who have a long term investment horizon and can tolerate higher downside volatility in the course of a market cycle. The conversion dates from sub-advisors to ETFs are April 30, 2008, for GTS – Conservative; February 29, 2008 for GTS – Moderate Growth; and October 31, 2007 for GTS – Conservative Growth. As of December 31, 2008, Cougar Global stopped using sub-advisors.

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