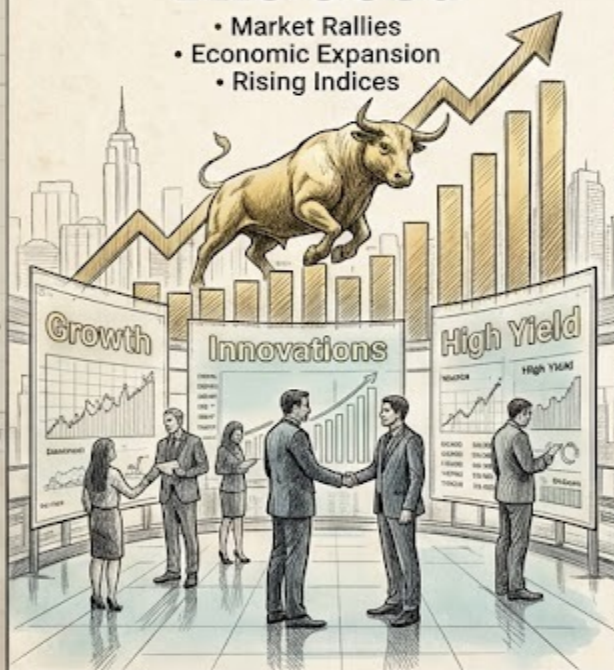


The Good, The Bad and The Ugly

Quick Takes on Markets and Economy

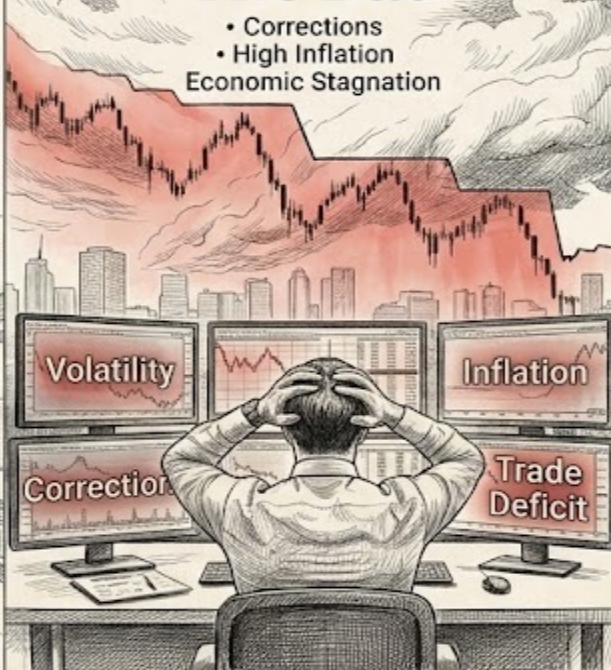
The Good

- Market Rallies
- Economic Expansion
- Rising Indices



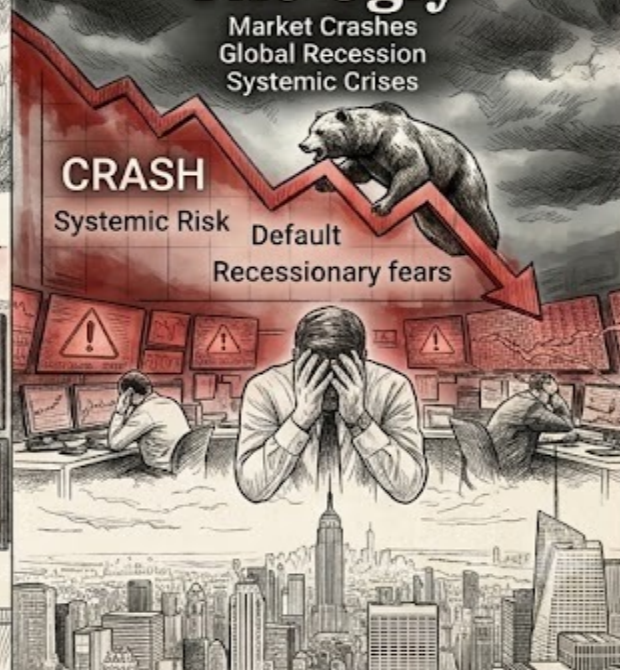
The Bad

- Corrections
- High Inflation
- Economic Stagnation



The Ugly

- Market Crashes
- Global Recession
- Systemic Crises



VOLUME IV

130.25

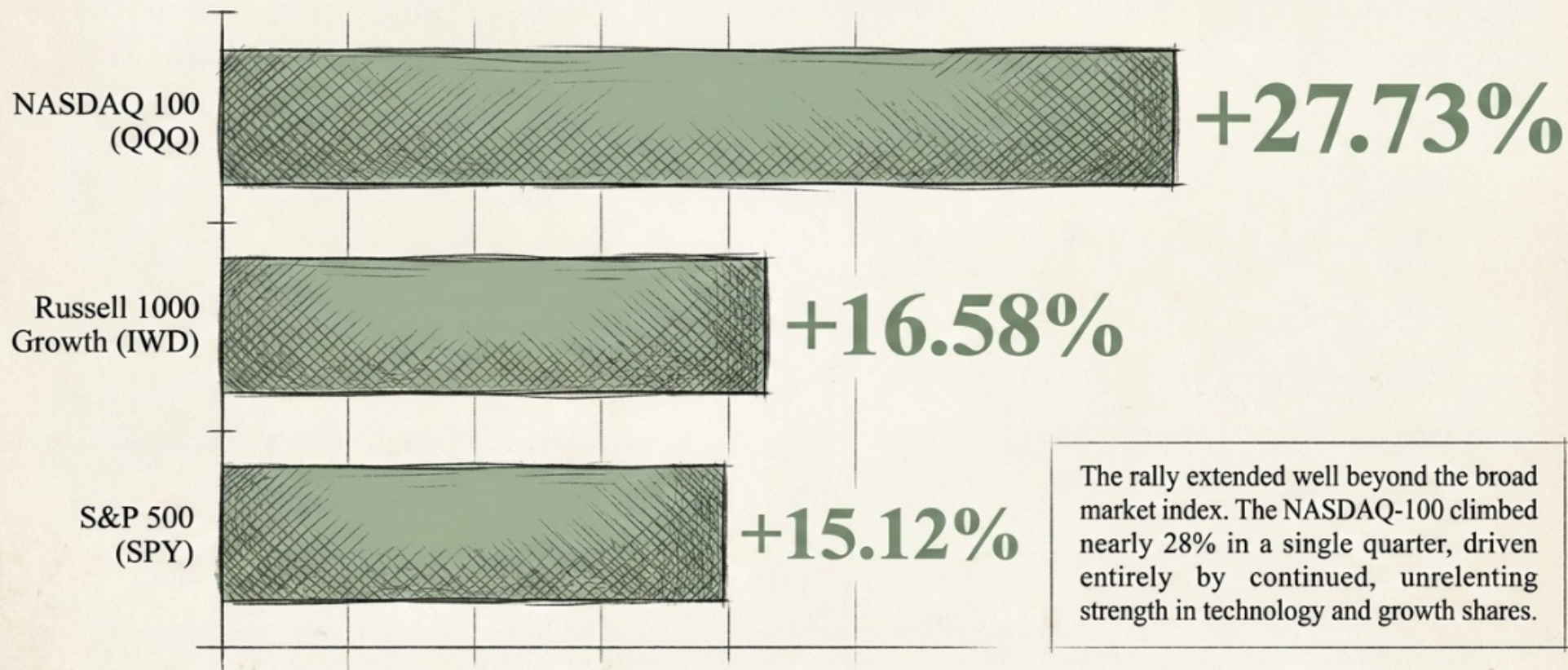
5.68%

ISSUE 7

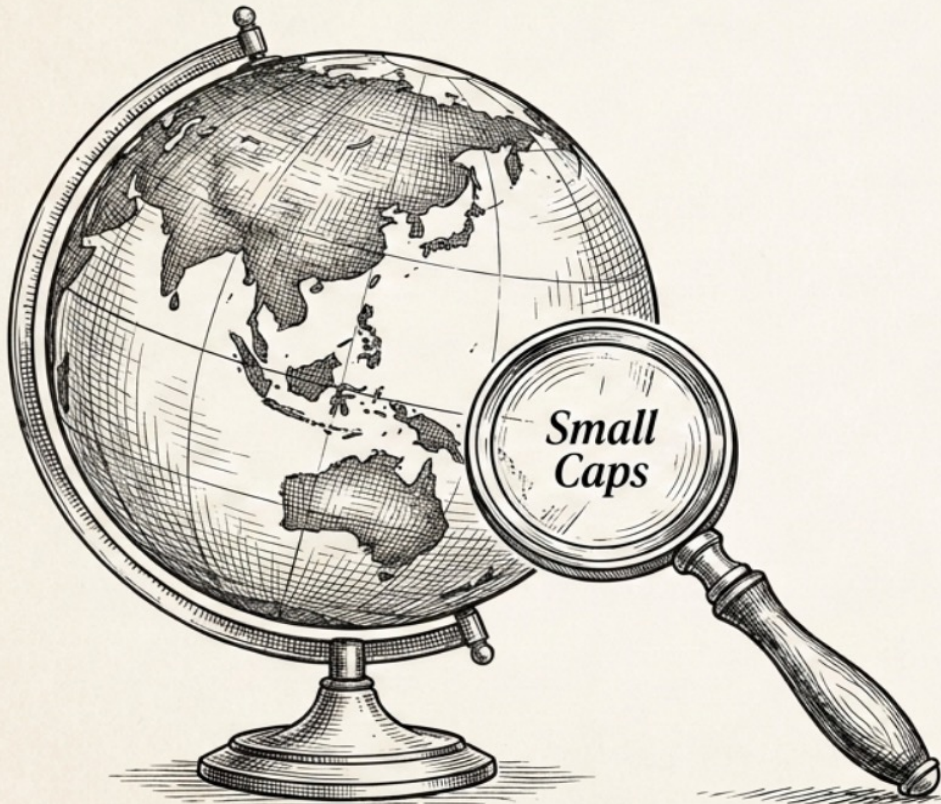
The second quarter presented investors with a remarkable paradox. Despite escalating tensions with Iran, a sharp rise in oil prices, and fading expectations for Federal Reserve rate cuts, equity markets largely looked through the uncertainty.



The Tech & Growth Engine



Expanding the Rally



+33.92% Asia 30
(AIA)

Standing out globally, Asian markets participated heavily in the advance.

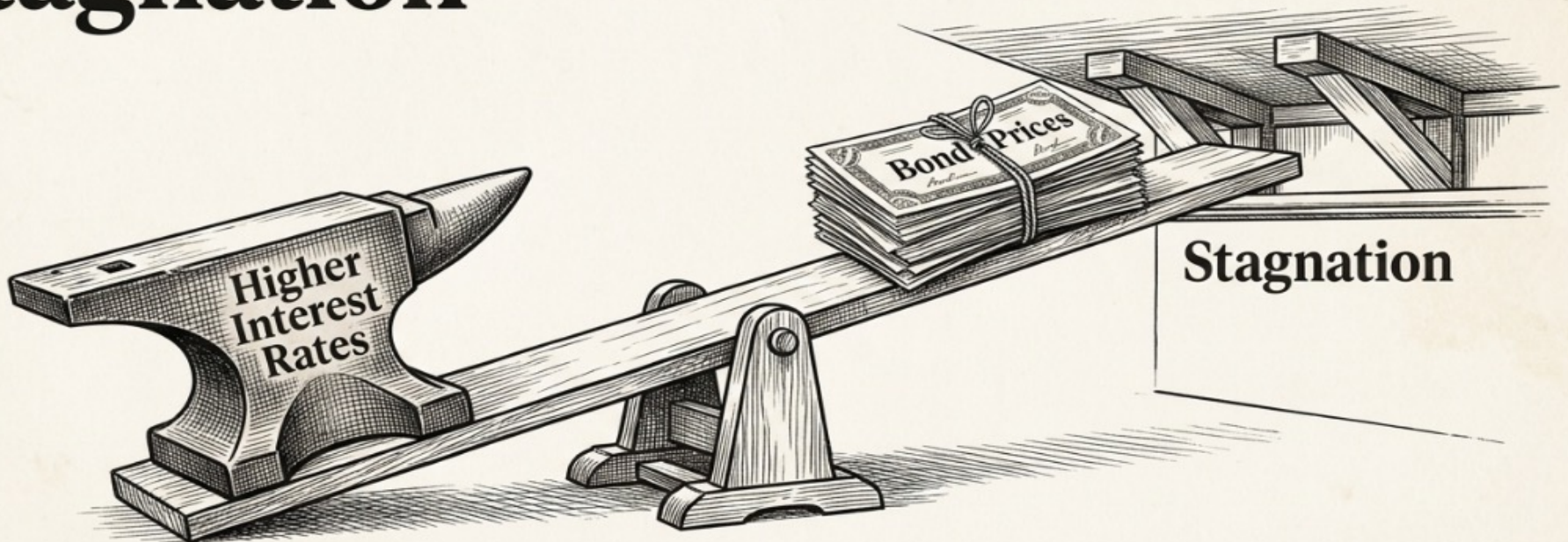
+21.44% Russell 2000
(IWM)

Small and mid-cap equities surged more than 21%.

+21.07% MSCI Emerging
Markets (EEM)

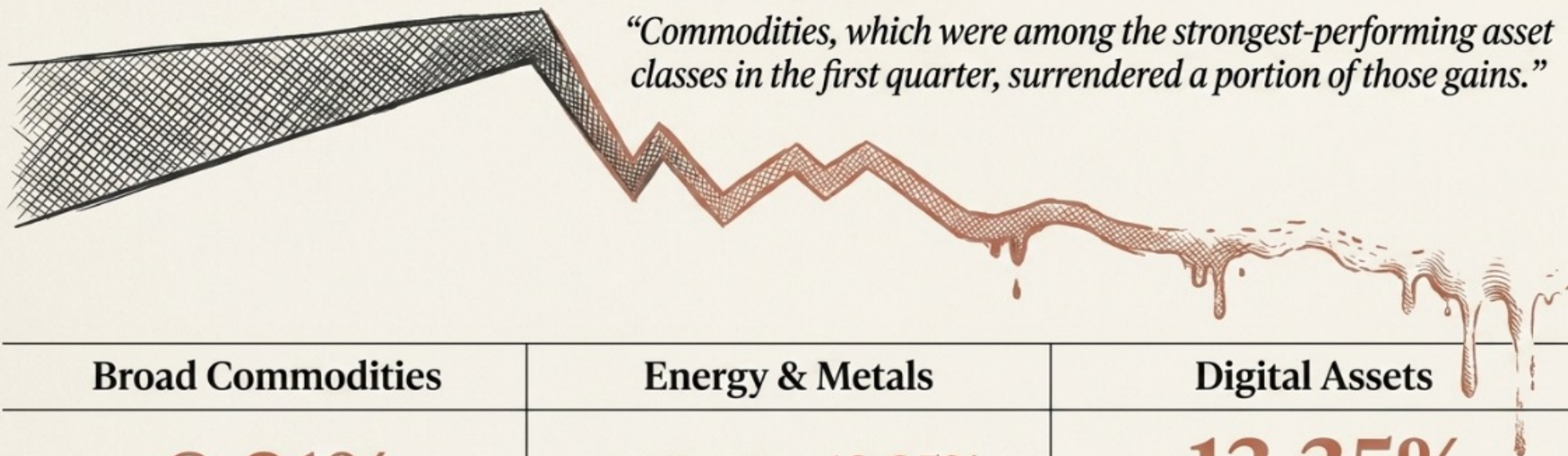
The Fixed Income Stagnation

Fixed income produced characteristically modest returns. As higher interest rates continued to weigh heavily on bond prices, the Bloomberg U.S. Aggregate Bond Index rose less than 1%.



US Aggregate Bond (AGG): +0.72% QTD | Inv Grade Corporate (LQD): +1.26% QTD | 1-3 Year Treasury (SHY): +0.33% QTD

The Commodity Surrender



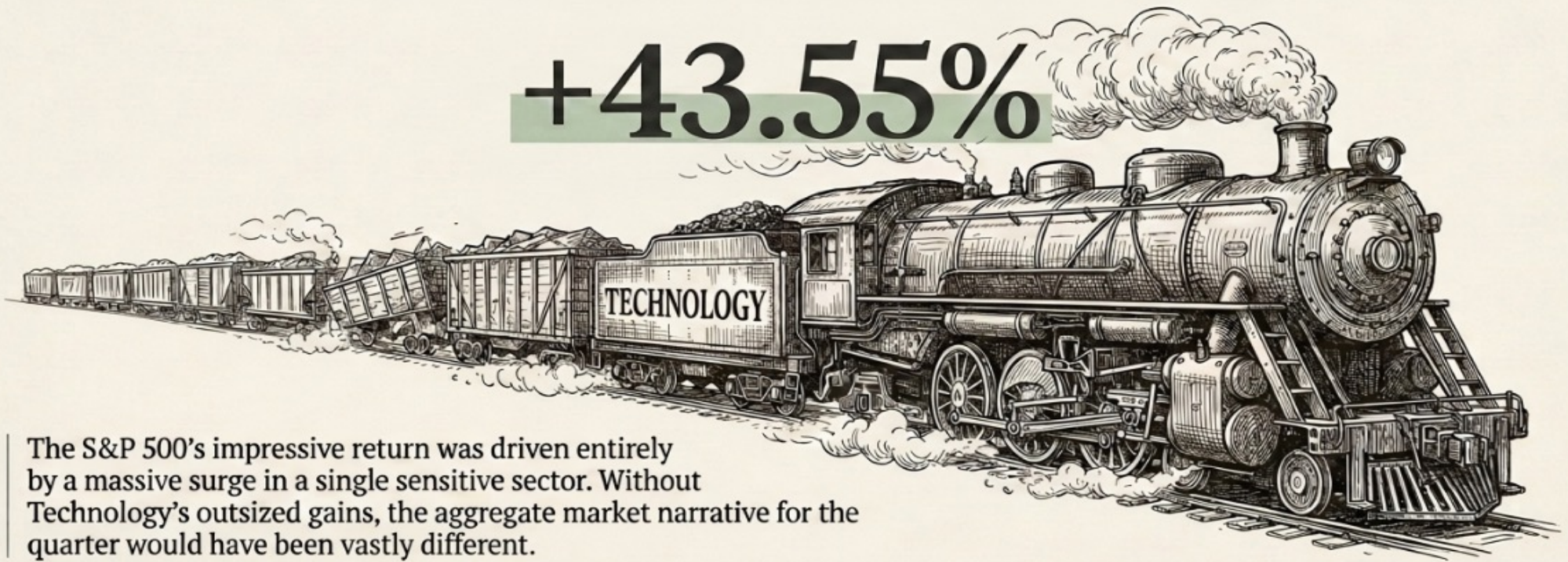
Broad Commodities	Energy & Metals	Digital Assets
-8.31% PDBC ETF	Oil (USO): -13.35% Gold (IAU): -14.35%	-13.35% Bitcoin (IBIT) Leading the decline with a stark -20.03% drop in June alone.

The Q2 Master Ledger

The Surges (>20% QTD)		The Flats (0-20% QTD)		The Surrenders (<0% QTD)	
Asia 30 :	+33.92%	S&P 500 :	+15.12%	LatAm 40 :	-3.77%
NASDAQ 100 :	+27.73%	Europe :	+9.12%	Broad Commodities :	-8.31%
Mid Cap :	+21.47%	High Yield Corp :	+2.35%	Bitcoin :	-13.35%
Russell 2000 :	+21.44%	US Agg Bond :	+0.72%	Oil :	-13.35%
Emerging Markets :	+21.07%	Copper :	+0.29%	Gold :	-14.35%

A powerful rally in technology stocks single-handedly pulled the index forward

+43.55%



The S&P 500's impressive return was driven entirely by a massive surge in a single sensitive sector. Without Technology's outsized gains, the aggregate market narrative for the quarter would have been vastly different.

The Market Hierarchy:

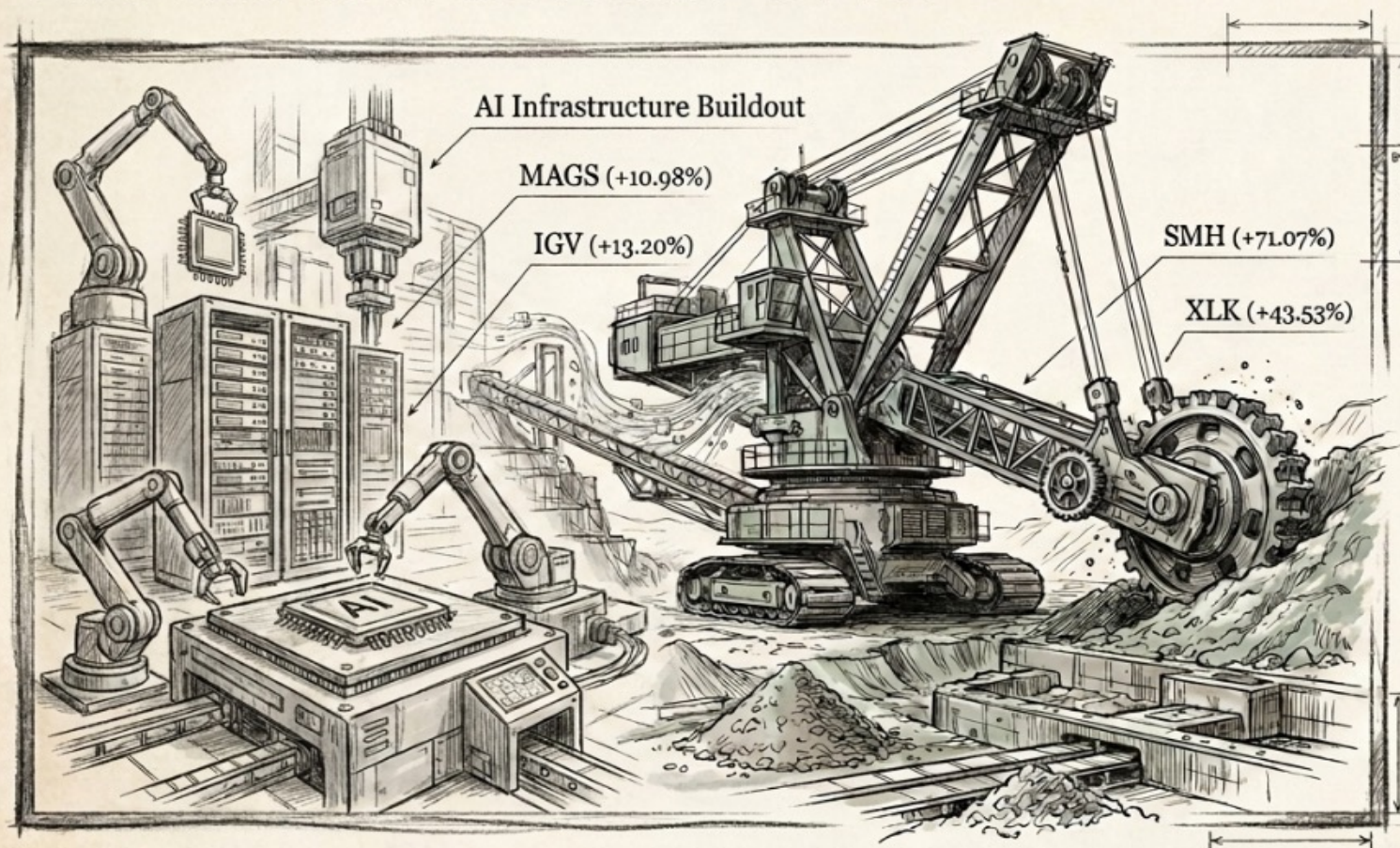
TECHNOLOGY (+43.55%)

INDUSTRIALS (+14.81%) • FINANCIALS (+8.97%) • REAL ESTATE (+8.77%)
HEALTH CARE (+8.66%) • CONSUMER DISCRETIONARY (+7.83%)
MATERIALS (+2.10%) • CONSUMER STAPLES (+2.04%)

All underperformed the S&P 500 (15.12%).

UTILITIES (-0.57%) • COMMUNICATION SERVICES (-3.11%)
ENERGY (-12.69%)

The Industrial Phase of AI



While technology remained the market's dominant force, a closer look beneath the surface revealed a meaningful shift in leadership. The "Magnificent Seven"—the primary engine of large-cap outperformance over the past several years—lost momentum as investor capital rotated toward the companies supplying the infrastructure behind the AI revolution. Semiconductor manufacturers, networking firms, and hardware providers increasingly outperformed the mega-cap platforms that had led the initial AI rally.

This rotation suggests the AI investment theme is entering a more mature phase. Rather than rewarding the companies making the largest AI investments, investors are increasingly favoring the businesses selling the "picks and shovels" needed to build the AI ecosystem.

Asian tech engines South Korea and Taiwan maintain unprecedented triple-digit momentum

MSCI South Korea (EWY)



187.68% (1-Yr)



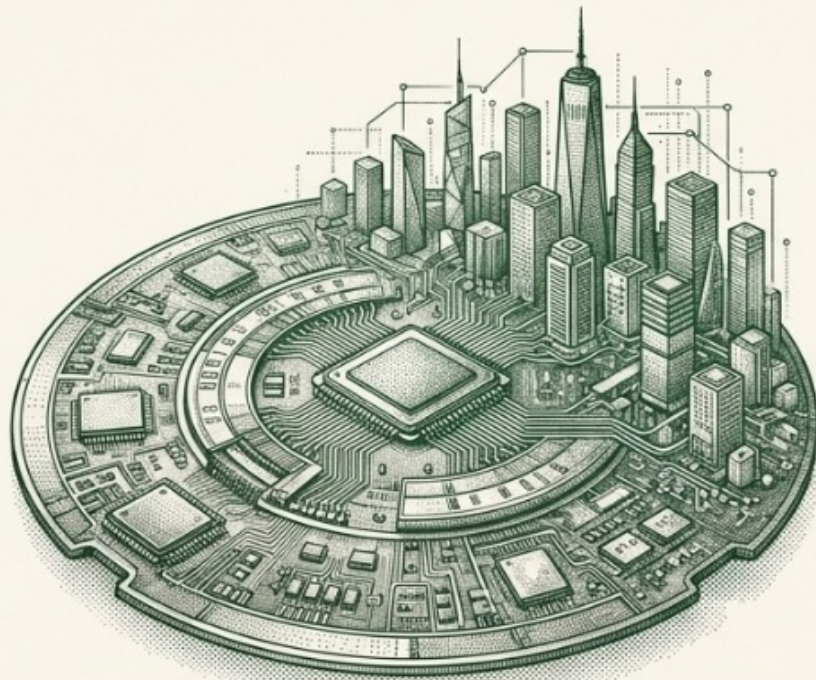
107.67% (YTD)



64.13% (QTD)



Unprecedented triple-digit growth. Maintains aggressive momentum with a 64.13% QTD surge, despite a fractional cooling in June (-1.91%).



MSCI Taiwan (EWT)



97.93% (1-Yr)



70.06% (YTD)

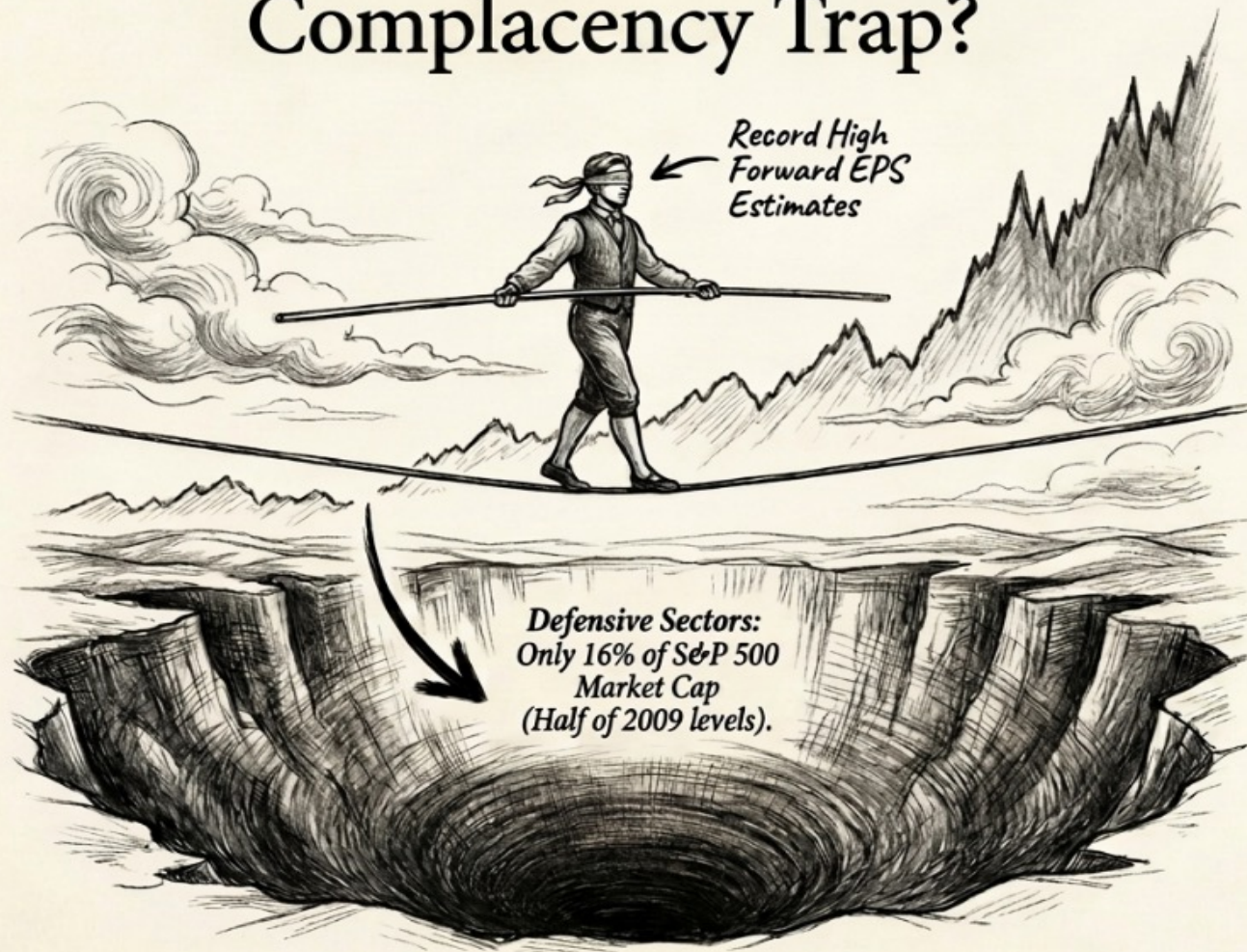


53.14% (QTD)



A near-doubling of capital in 12 months. Growth is directly driven by hardware manufacturing and absolute dominance in the global technology supply chain.

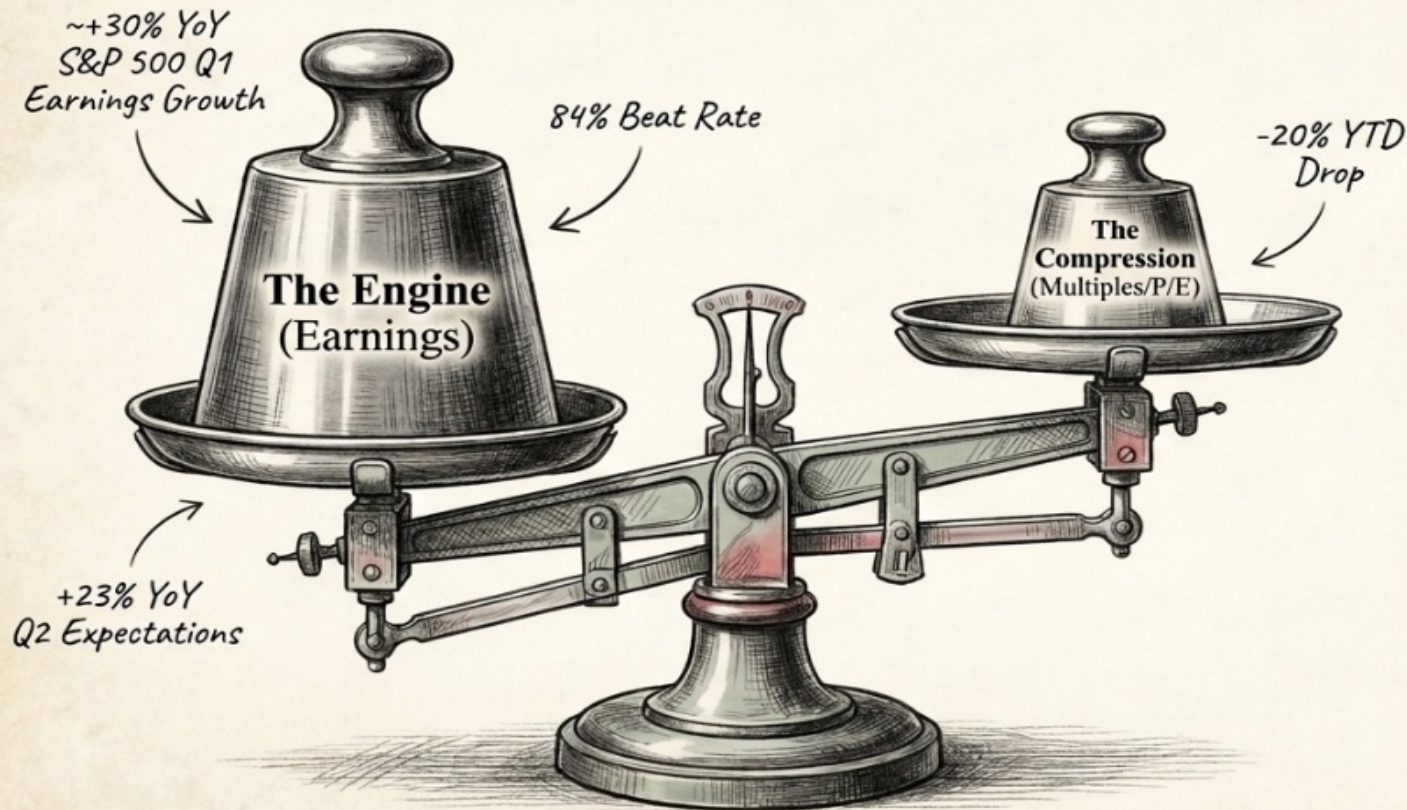
Complacency Trap?



The extraordinary run in technology stocks over the past several years has left the market increasingly concentrated and, in our view, unusually complacent. Traditional defensive sectors—including utilities, healthcare, consumer staples, and real estate—now account for just 17% of the S&P 500's total market capitalization. That is roughly half their weighting at the major market bottoms of 1990 and 2009, when investors placed a much higher premium on stability and downside protection.

A similar message is emerging from market leadership. The relative performance of low-beta stocks versus high-beta stocks has fallen to its lowest level since the 1960s, underscoring investors' overwhelming preference for risk over defense. These are the types of extremes that tend to develop late in a market cycle. They do not necessarily signal an imminent reversal—momentum can persist for months and valuations can become even more stretched. However, they do suggest that the market's margin for error has narrowed considerably. When leadership eventually shifts, history suggests the adjustment can be both swift and significant.

Fueled by Fundamentals



While the geopolitical headlines dominated the news, fundamentals, specifically corporate earnings, were the primary driver of the market's strong performance.

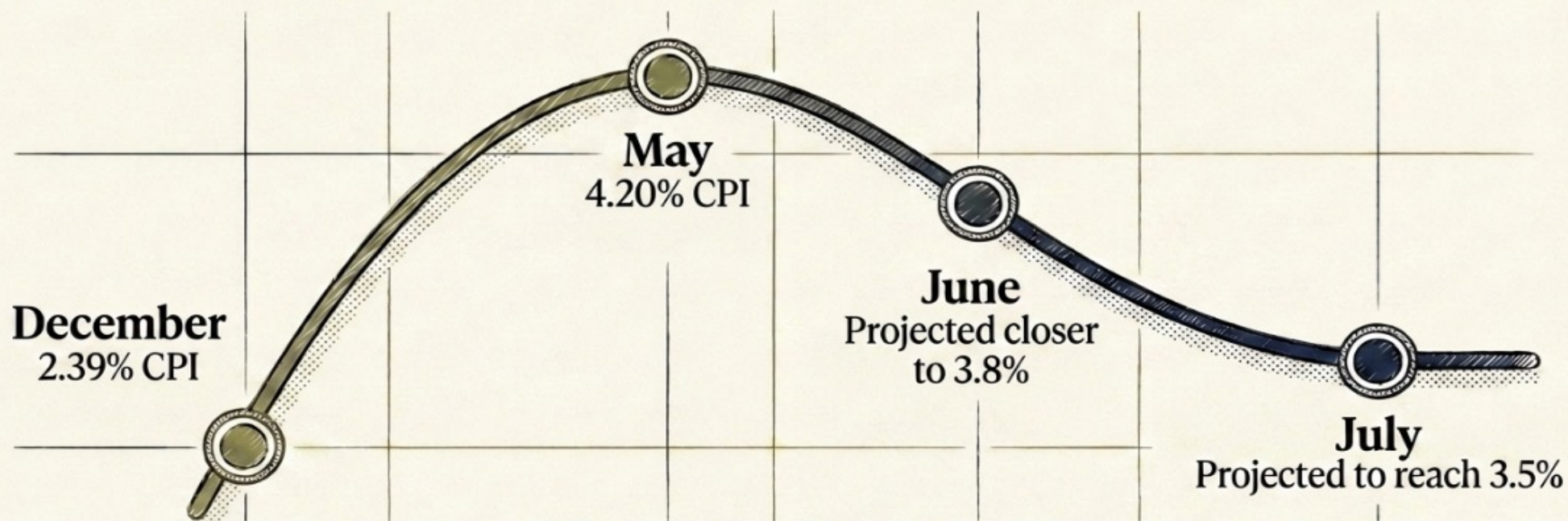
First-quarter earnings for the S&P 500 grew nearly 30% year over year, roughly three times the long-term average of 10%. In addition, 84% of companies exceeded analysts' expectations, well above the historical average of 75%. Earnings growth of this magnitude is typically associated with the early stages of an economic recovery, not with an economy that appears to be in the middle of an expansion.

Expectations remain elevated. Second-quarter earnings are currently projected to increase approximately 23% from a year ago. Given the recent trend of companies consistently exceeding estimates, actual growth could ultimately approach 30%.

Strong earnings momentum has been a powerful tailwind for equities, supporting both higher prices and elevated valuations. History, however, suggests that markets often struggle not when earnings are weak, but when earnings growth reaches its peak and begins to decelerate. That inflection point may be drawing closer.

Over the past three years, S&P 500 earnings have compounded at an annual rate of roughly 14%. Yet consensus estimates call for approximately 15% annual growth over the next three years—a forecast that appears optimistic given a maturing economic cycle, slowing nominal growth, and already elevated profit margins. While earnings continue to provide a solid foundation for the market, investor expectations leave little room for disappointment.

We believe Peak Inflation is behind us.

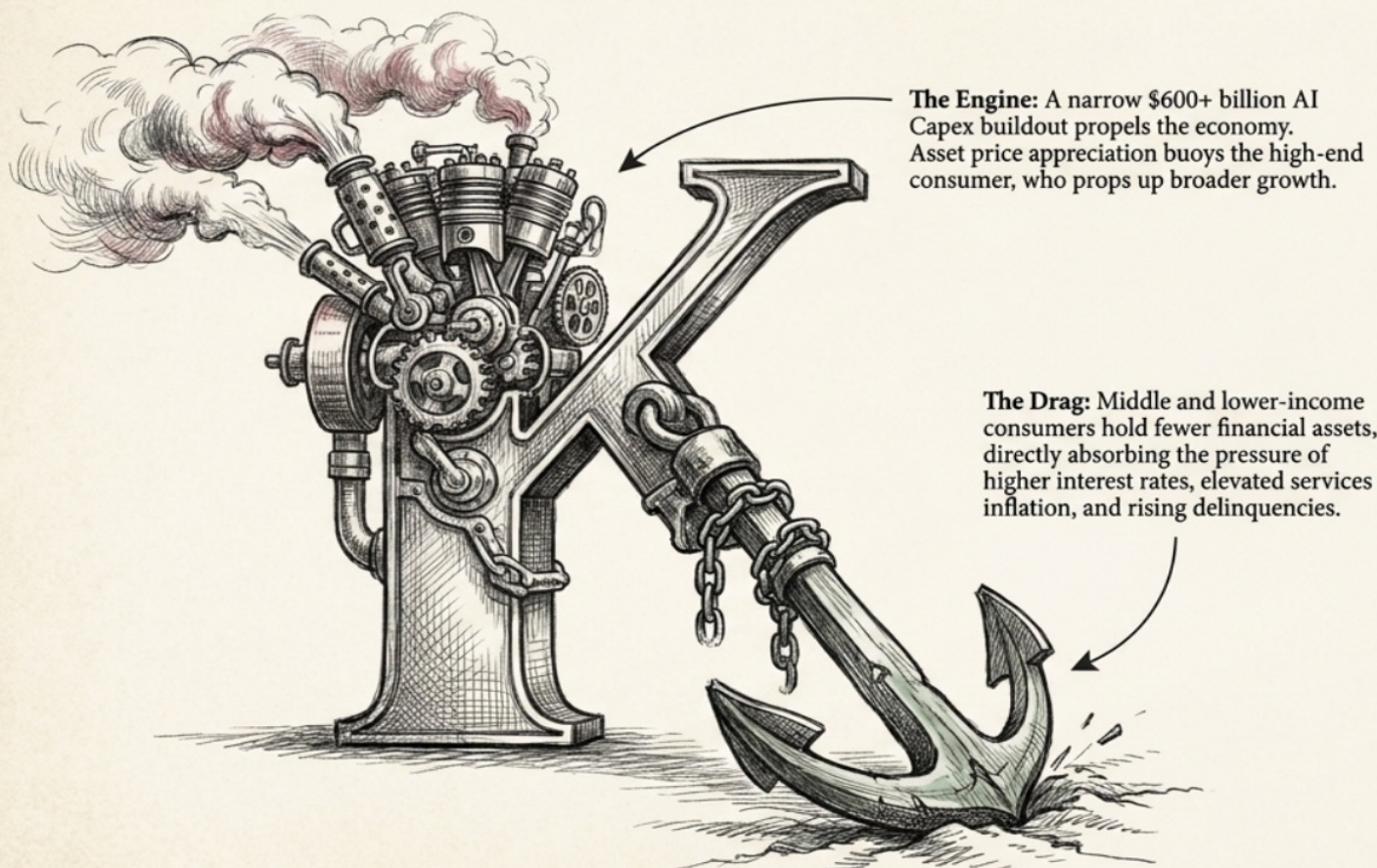


The Fed's short-term concerns about inflation will likely go away over the next two months.

CPI and PCE are out...Trimmed Mean PCE is in

	Headline CPI	Trimmed Mean PCE
What it Captures	Broad basket including volatile commodities	The stable middle distribution
Outlier Vulnerability	Extremely High (90% driven by oil)	Mathematically neutralized
Current Reading	4.20%	2.41%
The Warsh/Fed Preference	Low / Ignored	High / Primary indicator

The Mechanical Fracture



This dual-speed reality has engineered a profoundly K-shaped economic environment.

The upper echelon is propelled by a narrow, six-hundred-billion-dollar artificial intelligence capital expenditure cycle. This concentrated spending drives large-cap equity appreciation, which in turn buoys the high-net-worth consumer through the wealth effect, artificially propping up aggregate spending metrics.

Conversely, the bottom demographic holds significantly fewer financial assets and directly absorbs the immense friction of elevated interest rates, sticky services inflation, and rising delinquencies.

Consequently, traditional monetary policy tools are rendered blunt; Federal Reserve rate hikes heavily punish the vulnerable while utterly failing to decelerate the insulated technology boom.

A New Approach to Monetary Policy?



The Leadership Shift

As central bank leadership philosophies transition away from the pandemic era, the highly predictable monetary playbook is fundamentally altering.

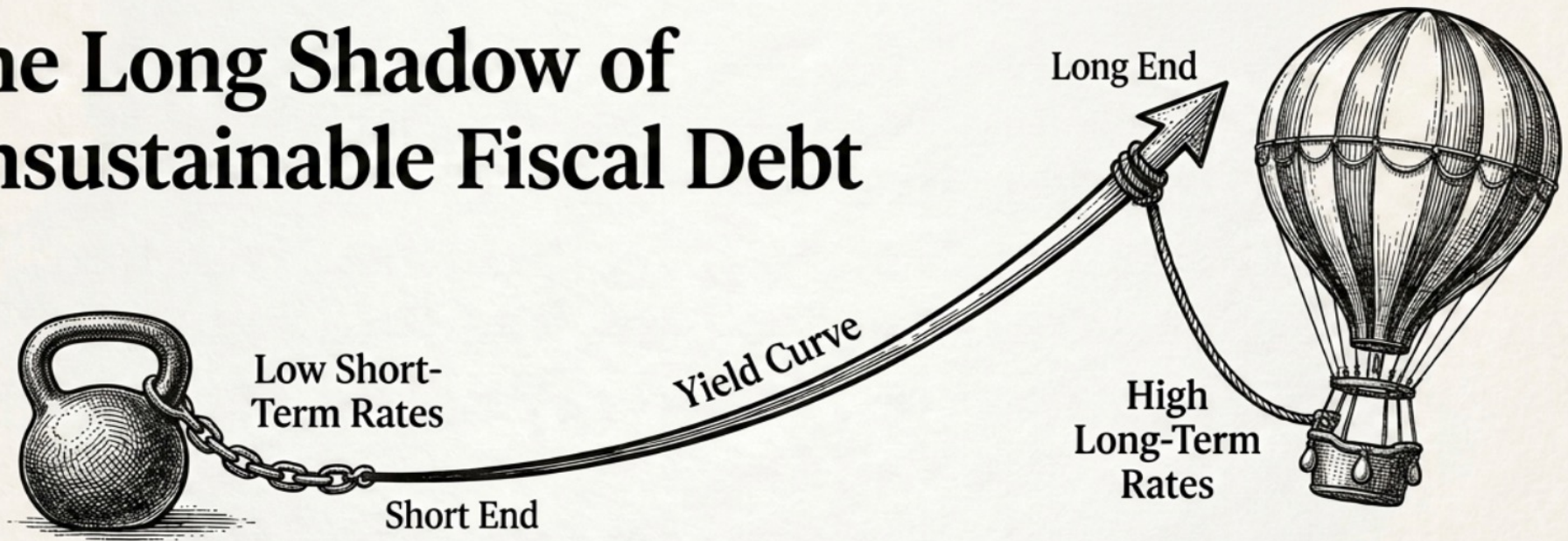
The Death of Telegraphing

The era of heavy forward guidance is ending. The new regime will rely significantly less on long-term predictions and more on immediate, reactive inflation data.

The Balance Sheet Retreat

Expect a much smaller balance sheet to play a vastly reduced role in the Fed's arsenal, removing a critical structural tailwind that previously propped up financial assets.

The Long Shadow of Unsustainable Fiscal Debt



The Reality

The long-term national debt trajectory is structurally unsustainable, fueled by years of overly expansionary fiscal policy and structural tax cuts.

The Market Impact

This looming fiscal debt crisis will likely not resolve in an instantaneous, catastrophic collapse or overnight default scenario.

The Fixed Income Translation

Instead, the debt acts as a yield curve steepener. It introduces massive structural uncertainty, likely resulting in a higher 10-year yield than desired by politicians and FOMC members.

Disclosure

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