



Graham Capital Management
40 Highland Avenue
Rowayton, CT 06853

1-203-899-3456
info@grahamcapital.com
www.grahamcapital.com

May 2026

IMBALANCES, CONSOLIDATION, AND CHOKES POINTS

*The evolution of macro trading from global easing to
strategic scarcity*

Jens Foehrenbach
President and Chief Investment Officer
Graham Capital Management

Key Takeaways

- **The modern macro regime is the cumulative result of a long political-economy path.** Demographics raised the demand for safe income and balance-sheet protection; the Greenspan-era policy put taught markets that liquidity support would arrive when carry broke; globalization and surplus recycling compressed term premium; QE institutionalized the backstop; post-COVID inflation exposed the limits of low real rates; and geopolitical rivalry has turned concentrated supply chains, energy routes, and financial plumbing into strategic choke points. These are not separate stories. They are connected stages in a single sequence, and they explain why today's market is structurally short the yield curve, structurally exposed to supply shocks, and structurally dependent on a policy put that has become conditional.
- **This is an inverse-floater economy.** The financial system owns long-duration, illiquid, leveraged claims and finances or values them through short rates, repo, deposits, and discount rates. It needs a positively sloped curve and low real rates to roll itself. This balance-sheet feature, more than any one shock, organizes the modern macro regime.
- **The "policy put" predates QE and is now conditional.** Successive crises, including the 1980s Savings and Loan crisis, the 1987 stock market crash, 1994 bond market shock, the 1998 LTCM crisis, and the 2008 Global Financial Crisis, trained investors to expect curve repair when carry broke. Post-2022 inflation and the supply shocks of 2025–26 have made that put conditional: inflation can object first, and the long end may not cooperate and stay elevated even when the front end rallies.

- **Inflationary shocks destabilize markets differently than disinflationary ones.** In earlier crises, central banks could often ease aggressively into falling growth and collapsing asset prices. In the current regime, energy disruptions, tariffs, supply-chain stress, and strategic choke points can push inflation and real rates higher before growth weakens, complicating the traditional policy response.
- **Choke points price availability, not only price.** In earlier globalization regimes, disruptions were often treated as temporary price shocks. In the current regime, concentrated control over energy routes, critical minerals, dollar funding, shipping, and industrial inputs have become strategic leverage points in a system that can no longer assume abundant supply, stable inflation, or automatic policy rescue by central banks.
- **The opportunity set is in sequencing, not direction.** Steeper curves, inflation convexity, FX dispersion, strategic-input optionality, and equity/credit dispersion compose the trading map. The hardest skill is identifying which move comes first—and being positioned, in size and liquidity, to add risk when the second move arrives.

1. Summary

The present environment is the cumulative result of demographics, central-bank reaction functions, globalization, fiscal expansion, leverage, and geopolitical rivalry. China's WTO entry, the European and Japanese savings gluts, U.S. fiscal absorption, the Global Financial Crisis ("GFC"), QE, the COVID-era fiscal impulse, the return of tariffs, the Iran war, and the renewed contest with China are not separate stories. They are connected stages in a single political-economy sequence. Each stage reinforced the next through feedback loops between politics, balance sheets, policy reaction functions, and market structure.

The GFC was not the origin of the financial system's dependence on central-bank liquidity. The better claim is that the GFC converted an existing pattern into a standing and institutionalized monetary architecture. The structure was already visible in earlier episodes, including the 1980s Savings and Loan ("S&L") crisis, the 1987 stock market crash, the 1994 bond-market accident, Askin Capital, LTCM, Bear Stearns, and Lehman: in all these instances, long-duration or illiquid assets financed with short-rate-sensitive liabilities resulted in a curve flattening or rates shock, forced deleveraging, and motivated a policy response designed to prevent liquidation from becoming systemic.

The metaphor for this backdrop is the **inverse-floater economy**. An inverse-floater is a debt security that pays a coupon whose value is set by the difference between a fixed rate and a benchmark interest rate (such as SOFR). It behaves similarly to a financial system that owns or manufactures long-duration claims—mortgages, private credit, corporate debt, equities, real estate, infrastructure, venture cash flows, and government debt—and finances or values them through short rates, repo, deposits, wholesale funding, and discount rates. When the curve is positively sloped and real rates are low, carry hides fragility. When the curve flattens and real rates rise, collateral falls (in the case of bear flattening), liquidity disappears, and the system must de-lever or be rescued.

The yield curve is one measure of that system's ability to roll itself. A positively sloped curve supports net interest margins, carry trades, mortgage carry and negative-convexity financing, dealer inventory economics, refinancing assumptions, and confidence that short-term funding can be rolled into longer-duration assets. Maturity transformation is not new; it has been a core component of the financial system's risk-transformation function. What has changed is the fragility around it: more leverage across economic actors, more complex instruments, more opaque interconnections, larger nonbank balance sheets, and greater willingness to rely on a perceived policy

backstop. When the curve flattens because short and real rates rise, the system loses the positive carry that supports maturity transformation. In a front-end-led bear flattening, the pressure is more acute: funding costs rise, long-duration collateral loses value, margin and haircut demands increase, regulatory and economic capital are consumed, and investors need liquidity precisely as market depth deteriorates. Curve flattening is not merely a macro signal; it is a balance-sheet stress test.

Demographics provide the slow political-economy substrate. Aging societies wanted retirement security, asset stability, low volatility, and cheap financing. Older voters and asset owners did not vote for QE in any mechanical sense, but the median political constraint became increasingly hostile to nominal asset-price deflation, entitlement restraint, and financial-system liquidation. That made the repeated policy solution—lower real rates, liquidity support, fiscal transfers, and curve repair—the path of least resistance.

Globalization made the structure look sustainable. China's WTO entry accelerated supply-chain arbitrage and exported goods deflation. Europe, Japan, China, and other surplus economies recycled savings into dollar safe assets. The United States supplied the balance sheet: Treasuries, agencies, MBS, dollar liquidity, and fiscal deficits. This suppressed term premia, lifted collateral values, and rewarded duration. Globalization also hollowed out parts of the U.S. industrial base and embedded dependence on external supply and external savings.

The post-COVID inflation shock broke the benign surface equilibrium. Fiscal transfers met goods, labor, energy, and logistics constraints. What had looked like excess financial capacity was revealed as too many nominal claims on constrained real capacity. The shock made the old policy put harder to exercise. If a shock is deflationary, central banks can cut rates and steepen curves. If a shock is inflationary first, central banks must defend inflation credibility while the carry structure is already under stress.

Globalization also produced a less obvious by-product: **choke points**. In the old regime, concentration looked like efficiency. In the new regime, concentration becomes leverage. Rare-earth processing, batteries, graphite, semiconductors, shipping lanes, the South China Sea, the Strait of Hormuz, LNG, fertilizer, Treasuries, repo, and dollar funding are not isolated risks. They are control points in a system that can no longer assume abundant supply, stable inflation, and automatic policy rescue.

The U.S. response can be understood as **consolidation policy**: an attempt to narrow the gap between commitments and resources while rebuilding the domestic power base for long-term competition with China. Consolidation requires time, cheap and abundant energy, fiscal room, industrial inputs, alliance reciprocity, and stable frontiers. Strategic distractions like a prolonged Iran war are disruptive precisely because they consume those inputs while imposing an inflationary energy tax at the moment the system most needs low real rates and a supportive curve.

For macro trading, single directional forecasts are being replaced by sequencing frameworks. The first move in an inflationary choke point shock is typically higher front-end rates, a stronger dollar, weaker risk assets, and poor performance from traditional hedges. The second move is growth damage, credit stress, capex delay, and front-end rallies. The third move is policy repair—but with the long end constrained by deficits, term premia, auction risk, and inflation credibility. The opportunity set therefore lies in curves, real rates, inflation convexity, commodities, FX dispersion, volatility, and cross-asset relative value rather than in simple beta.

Exhibit 1. The chain of causality

Stage	Mechanism	Market Expression
Demographics	Aging societies increase demand for safe income, low volatility, asset protection, and retirement benefits.	Lower equilibrium real rates, higher duration demand, fiscal pressure, and political resistance to austerity.
Policy put	Repeated crises teach investors that liquidity support and curve repair arrive when carry breaks.	Leverage, maturity transformation, negative convexity, and confidence in central-bank reaction functions.
Globalization	China's WTO entry and supply-chain arbitrage export goods disinflation; surplus economies recycle savings.	Low term premia, cheap credit, high margins, financial asset inflation, and distributional strain.
Financialization	Safe-asset demand becomes collateral inflation, securitization, private credit, and duration dependence.	Rate sensitivity, liquidity illusion, and reliance on stable correlations.
Post-COVID rupture	Fiscal impulse collides with supply, labor, energy, and logistics constraints.	Inflation uncertainty, higher real rates, positive stock-bond correlation, term-premium repricing.
Choke points	Concentrated inputs and routes become strategic leverage.	Availability premia, inventory hoarding, freight/insurance shocks, dollar funding stress, volatility.
Consolidation	U.S. policy attempts to rebuild industrial capacity, burden-shift, and prioritize China.	Steeper curves, fiscal credibility risk, defense/energy/industrial dispersion, sequencing trades.

2. The long arc: imbalance as a political-economy regime

The last quarter century is often narrated as a sequence of discrete shocks: China entered the WTO; the United States ran deficits; Europe and Japan saved too much; housing boomed; the GFC required bailouts; QE pushed investors into risk; COVID fiscal transfers generated inflation; tariffs returned; the Iran war disrupted energy; China weaponized strategic inputs. Each statement is true but incomplete. The deeper story is a self-reinforcing regime that combined political demography, central-bank reaction functions, global production arbitrage, savings imbalances, and an expanding dollar balance sheet.

The late 1990s and early 2000s accelerated disinflationary globalization. China's WTO admission reduced tariff-threat uncertainty and made China a reliable sourcing platform for global firms. The economic gain was obvious: cheaper tradable goods, scale economies, inventory efficiency, and higher corporate margins. The political and social costs were slower to emerge: regional labor scarring, deindustrialization pressure, environmental damage in China, and a widening gap between asset owners and wage earners (Autor, Dorn, and Hanson, 2013).

The same period deepened the global savings glut. China, Japan, Germany, other European surplus economies, and commodity exporters generated more savings than they absorbed domestically. Those savings needed safe assets. The United States supplied them through Treasuries, agencies, MBS, bank deposits, and dollar collateral (Bernanke, 2005; Caballero, Farhi, and Gourinchas, 2008). Reserve privilege made U.S. deficits easier to finance, but it also made the U.S. economy the global shock absorber for surplus savings and excess production capacity.

The benign surface equilibrium was low measured inflation, declining long rates, expanding credit, high equity multiples, and rising housing prices. The hidden imbalance was that the system depended on a world in which imported goods deflation offset domestic asset inflation, surplus savings suppressed term premia, and central

banks could respond to market stress without being constrained by inflation credibility. That was a specific historical configuration, not a permanent law of economics.

The GFC revealed the fragility of that arrangement, but it did not create the underlying dependence on liquidity. It transformed it. A system that had already learned to expect liquidity support after market accidents became a system in which balance-sheet expansion, forward guidance, and near-zero rates were explicit tools of macro stabilization. QE did not begin the policy path; it scaled and institutionalized it.

The post-COVID period exposed the limit of financial solutions to real constraints. Fiscal transfers, supply-chain disruption, labor-market friction, energy shocks, and tariffs created inflation pressure that could not be solved simply by providing liquidity. Once inflation returned, the same tools that had once stabilized markets risked exacerbating price pressure. That changed the meaning of a shock. A geopolitical disruption that raises energy prices or blocks critical inputs is not merely a growth shock; it is an inflation shock before it becomes a recession shock.

3. Demographics: the silent balance sheet

Aging shaped the policy reaction to financial shocks.

Demographics are a slow-moving variable that often disappear from market narratives yet are central to the political economy of imbalances. Aging affects macroeconomics through saving behavior, labor supply, entitlement commitments, asset ownership, and political preferences. It helps explain why high saving rates persisted in Europe and Japan, why China built a model with high household saving and weak consumption, and why the United States became increasingly reluctant to allow nominal balance-sheet deflation (Carvalho, Ferrero, and Nechio, 2016; Goodhart and Pradhan, 2020).

In the United States, the baby-boom generation moved through peak earning, saving, homeownership, and retirement-asset accumulation during a period of falling inflation, falling nominal rates, rising equity multiples, expanding credit, and cheap imported goods. The cohort did not consciously design the policy framework, and Social Security and Medicare predate it. But the political system became increasingly sensitive to an older, more asset-sensitive electorate that valued retirement security, stable home equity, and financial-market resilience.

That matters for both fiscal and monetary policy. On the fiscal side, aging raises the political cost of entitlement restraint. On the monetary side, a society whose household balance sheets and pension promises depend heavily on asset prices has less tolerance for liquidation events. A deep equity drawdown, housing bust, bank failure, or pension shortfall is not just a market event; it becomes a political problem. This reinforces the incentive for liquidity support, lower real rates, fiscal transfers, and regulatory forbearance to prevent a full clearing of the system.

An aging asset-owning electorate shifted the political economy toward benefit protection, balance-sheet stability, and resistance to nominal loss. This created a structural bias toward deficits, liquidity backstops, and policies that preserved asset values that countered the initially disinflationary force of demographics during the peak-saving phase. Younger cohorts often bore the adjustment through housing affordability, student debt, wage pressure, and reduced access to the same asset-price compounding that benefited earlier buyers (Mian, Straub, and Sufi, 2020).

Demographics also belong in the global savings-glut narrative. Japan and parts of Europe aged earlier, producing high savings, low domestic investment, and institutional demand for safe duration. China's high saving rate reflected household precautionary motives, weak social safety nets, the legacy of the one-child policy, housing-market dynamics, and an investment-led growth model (IMF, 2018). These demographic balance sheets reinforced current-account surpluses and the recycling of savings into dollar assets.

The counterfactual is important. Even if China's WTO entry, the exact GFC path, and COVID had unfolded differently, developed economies still would have faced aging-related pressures including slower labor-force growth, rising

retirement and health-care obligations, higher safe-asset demand, and political resistance to austerity. Demographics made that direction more likely. The historical events determined the timing, transmission, and market expression.

Exhibit 2. Demographic channels and market expressions

Region / Channel	Political-Economy Pressure	Market Expression
United States	Aging asset owners, retirement promises, health-care costs, high voter participation among older cohorts.	Fiscal deficits, entitlement rigidity, asset-price sensitivity, mortgage and housing politics, tolerance for liquidity support.
Europe	Aging, high saving, limited domestic demand, core-country surpluses, strategic-autonomy pressures.	High duration demand, fiscal-regime dispersion, EUR risk premia, defense/infrastructure spending, energy sensitivity.
Japan	Aging, low domestic growth, pension and insurer demand for income, decades of low yields.	Global duration flows, JPY repatriation risk, BoJ normalization spillovers, steepening sensitivity.
China	High household saving, weak safety net, property dependence, aging, employment-sensitive industrial policy.	Export surplus, overcapacity, managed currency, critical-input leverage, deflationary pressure abroad.
Political constraint	Older societies are less tolerant of inflation, benefit cuts, scarcity, and nominal asset deflation.	A narrower policy corridor: governments must finance promises while central banks preserve credibility and market functioning.

4. The policy put predates QE

The GFC institutionalized a liquidity dependence that had been developing for decades.

The GFC was the largest and most consequential episode of market dependence on central-bank liquidity, but it was not the first. Since the Greenspan era, investors repeatedly observed that when market functioning broke down, policy would respond not only to the macro data but to the risk of disorderly liquidation. The perceived “Greenspan put” emerged after the 1987 crash and was reinforced after 1998, when the Fed cut rates and coordinated the private recapitalization of LTCM (Mullin, 2023).

The Federal Reserve became increasingly unwilling to allow market malfunction to become a macroeconomic accident. Such intervention may be appropriate in a crisis, but the trade-off is that repeated interventions change behavior. If investors believe liquidity will be provided when liquidation becomes systemic, they will hold more assets that are long-duration, illiquid, levered, negatively convex, or funded with short-term liabilities. That is the moral-hazard channel through which the policy put becomes structural.

The common structure is visible across episodes that look very different on the surface. The S&L crisis before Greenspan involved long-term fixed-rate mortgages funded by short-term deposits. Askin Capital was leveraged in mortgage derivatives funded by broker-dealer credit. LTCM held leveraged convergence trades and depended on liquidity. Bear Stearns and Lehman were shadow-bank maturity-transformation failures tied to mortgage collateral and wholesale funding.

The instrument may have changed from crisis to crisis, but the resemblance remained and the pattern repeated across episodes: own long or illiquid assets, finance them short, and assume the curve and funding markets will

cooperate; then, discover that when rates rise, the curve flattens, volatility increases, or collateral falls, the effective owner of the risk becomes whoever must sell first. The recurring question is: **who owns the inverse floater?**

The phrase “inverse floater” is an analogy. An inverse floater pays less when short rates rise. Much of the modern financial system has that profile. It benefits from low short rates, a positively sloped curve, stable collateral, and low volatility. It loses when funding costs rise, long assets fall, margin calls appear, and market depth disappears. The system is structurally short the yield curve. Recognizing that is central to risk management in the modern regime.

Exhibit 3. The pre-COVID policy-put timeline

Episode	Core Structure	What Flattened or Broke	Lesson
1987 crash	Portfolio insurance, dynamic hedging in falling markets.	Cascading sell programs in thin liquidity.	Greenspan put established: Fed liquidity to backstop market functioning.
S&L crisis, 1980s	Long fixed-rate mortgages funded by short-term deposits; regulatory forbearance and deposit insurance.	Rising rates raised funding costs and reduced mortgage-asset values.	Maturity mismatch can turn a rate cycle into a solvency problem.
1994 bond-market accident	Leveraged duration, mortgage derivatives, inverse floaters, repo financing.	Fed hikes lifted short rates, flattened carry, hit CMO valuations, triggered margin pressure.	A flat curve is a carry-destruction mechanism, not just a macro signal.
Askin Capital, 1994	Leveraged mortgage-backed derivatives and CMO positions funded by broker-dealer credit.	Rate increases and margin calls forced liquidation into a thin market.	Dealer financing converts valuation pressure into forced selling.
LTCM, 1998	Highly levered convergence trades across bonds, swaps, equities, and derivatives.	Russia shock and flight to liquidity caused spreads to diverge, not converge.	Liquidity is endogenous; when everyone exits, relative value becomes directional.
Bear / Lehman, 2008	Shadow-bank maturity transformation, mortgage collateral, repo, derivatives, wholesale funding.	Collateral deterioration and funding runs overwhelmed balance sheets.	The GFC scaled the problem from episodic stress to system-wide balance-sheet crisis.
QE/ZIRP, 2009–19	Persistent central-bank balance-sheet support and forward guidance.	The rescue became architecture rather than episode.	Liquidity dependence was institutionalized and priced into risk assets.

5. The yield curve is the financial system’s oxygen line

A positive curve and low real rates are part of the system’s plumbing.

The yield curve is often discussed as a recession predictor. That is too narrow. A flat or inverted curve can also be a cause of stress, because much of the financial system performs maturity transformation. Banks fund longer-term loans with shorter-term liabilities, broker-dealers finance securities inventories through repo, and mortgage investors carry duration and convexity exposure they have to hedge dynamically. Hedge funds, mortgage REITs, private-credit vehicles, and structured products often depend on the spread between asset yield and funding cost. A positive curve supports this structure; a flat curve compresses it; an inverted curve can break it.

The system also needs low or even negative real rates because the stock of debt and duration has grown so large. When real rates are low, debt service is easier, collateral values are higher, and risky assets can be refinanced. When real rates rise, the present value of long-duration claims falls, interest costs consume fiscal space, and private balance sheets become more sensitive to refinancing. Higher real rates reveal that many positions were not only leveraged financially but also leveraged to the discount rate.

This creates a recurring policy dilemma. In a disinflationary growth shock, central banks can cut short rates, steepen the curve, support collateral values, and repair carry. That was the post-1987, post-1998, post-2001, and post-GFC playbook. In an inflationary environment, central banks cannot immediately provide the same repair without risking inflation credibility. Energy shocks, tariff shocks, rare-earth restrictions, and shipping disruptions are dangerous because they are inflationary before they are recessionary.

This is why choke point shocks are more destabilizing than conventional demand shocks. If disruption in the Strait of Hormuz lifts oil and LNG prices, the first market move can be higher front-end yields, higher breakevens, a stronger dollar, weaker equities, and worse bond hedging. The growth damage may come later, but the initial phase is precisely the phase in which the old policy put is least available. The system still needs curve support, yet the central bank may have to tighten or hold firm into the shock.

The market implication is that curve shape, real rates, and term premium become the central risk variables.

6. China, exported deflation, and the distributional bargain

Cheap goods were the political lubricant of a balance-sheet regime.

China's WTO entry was a macro-regime accelerant. By reducing uncertainty about sourcing from China, global firms built supply chains around China's scale, labor cost, infrastructure, and policy support. The result was a powerful disinflationary impulse in tradable goods (Kamin, Marazzi, and Schindler, 2004). For central banks, that imported disinflation made low rates appear safer than domestic leverage and asset inflation otherwise suggested.

The distributional effects were unequal. Consumers benefited from cheaper goods, and corporations benefited from higher margins and global scale. Workers in exposed regions faced concentrated labor-market damage. The empirical literature finds these effects were geographically persistent and politically consequential (Autor, Dorn, and Hanson, 2013). The result was an imbalance between the gains from cheaper tradables and the social cost of lost industrial capacity. George Packer's *The Unwinding* (2013) captured how that adjustment was absorbed by communities whose distress was largely invisible to the coastal economies it benefited.

Globalization also changed the policy reaction function. If goods disinflation held down CPI while asset prices rose, central banks could focus more on employment, financial stability, and market functioning. The policy put became easier to exercise because inflation did not immediately object. Cheap goods helped fund cheap money, both politically and economically.

China was not merely a passive supplier of cheap goods. Its domestic model generated excess saving, reserve accumulation, property investment, infrastructure spending, and eventually industrial overcapacity. That excess capacity had to be exported. When U.S. politics shifted from efficiency to supply chain resilience, powered by political entrepreneurs who articulated the anger at an establishment that benefited from the imbalances, the trade war became the policy expression of a deeper macro asymmetry: the United States had imported disinflation and exported industrial dependence; China had accumulated production capacity, savings, and leverage over critical supply chains.

China's strategic leverage lies not only in the ability to produce goods cheaply. It is control over bottlenecks that other economies require for defense, batteries, magnets, electronics, and energy transition. The trade contest

therefore shifts from price competition to access competition—a far more dangerous mode for global markets, because it changes scarcity premia rather than only price levels.

7. Savings gluts, fiscal absorption, and the dollar balance sheet

The United States absorbed the world's excess saving and excess production.

The standard global savings-glut framework features China and oil exporters buying Treasuries (Bernanke, 2005). The fuller picture also includes aging surplus economies, export-led development models, reserve accumulation, and weak domestic investment. All produced persistent demand for safe dollar assets. The United States supplied the assets and the deficit. That is the dollar balance-sheet role.

In the low-inflation period, this looked stabilizing. Surplus savings lowered long rates. Lower long rates supported mortgage credit, housing, corporate borrowing, buybacks, private equity, venture capital, and long-duration equities. The U.S. could run current-account and fiscal deficits at relatively low cost. Investors could treat Treasuries as both collateral and hedge. The apparent equilibrium was self-validating as long as inflation stayed low.

But reserve privilege became market dependence. Once debt service and deficits become large enough, fiscal credibility itself becomes a market variable. Treasury supply, auction tails, dealer balance-sheet capacity, term premium, and the political relationship between the Treasury and the Fed become inputs into rates, FX, and risk premia. The dollar can still rally in acute stress because it is the world's liquidity asset. But long-run reserve allocation becomes less automatic if foreign investors demand more compensation to hold U.S. duration.

Demographics intensify the fiscal problem. Entitlements and health-care commitments are not easily compressed. Defense, energy, AI infrastructure, industrial policy, and critical-mineral resilience all require capital. The consolidation strategy therefore runs through a narrow fiscal corridor: the United States must invest more in hard power and productive capacity while servicing past debt and supporting an aging population. Term premium is the market's referendum on whether the political system can finance both promises and power.

Exhibit 4. Global imbalance map

Imbalance	Old Regime Interpretation	New Regime Interpretation
China and Asia surplus	Cheap goods, reserve accumulation, low import prices, strong corporate margins.	Overcapacity, export dependence, strategic-input leverage, geopolitical retaliation risk.
Europe / Japan savings	Safe duration demand and downward pressure on global yields.	Repatriation risk, fiscal-regime dispersion, aging pressure, global curve steepening.
U.S. fiscal absorption	Reserve-asset supply meeting global savings demand.	Debt service, auction risk, term premium, fiscal-dominance concerns.
Central-bank liquidity	Crisis stabilization and lower near-term volatility.	Asset-price dependence, liquidity illusion, vulnerability when inflation constrains easing.
Private credit / illiquidity	Yield enhancement and smoother reported returns.	Liquidity mismatch, delayed marks, spillover risk when funding tightens.

8. From GFC to QE: institutionalizing the backstop

QE was necessary stabilization, but it also rewired asset pricing.

The Global Financial Crisis was the moment when global imbalances became a balance-sheet crisis. Safe-asset demand was converted into mortgage collateral, securitization, leverage, and shadow-bank maturity

transformation. Housing became a collateral accelerator. The financial system effectively manufactured safe assets from risky cash flows and then financed them through short-term markets. When the collateral fell and funding disappeared, correlations rose, liquidity vanished, and the financial system could no longer roll itself. The NAV of the inverse floater dropped into deeply negative territory.

The policy response was necessary. Emergency facilities, bank recapitalization, fiscal support, near-zero rates, and QE prevented depressionary liquidation. But the response also created a new equilibrium. Central-bank balance sheets became an explicit part of market structure. Long rates were suppressed. Forward guidance compressed volatility. Investors were pushed outward on the risk curve. Duration, leverage, buybacks, real estate, private assets, and long-horizon growth equities were rewarded.

QE was the institutionalization of the liquidity-dependence path. The Greenspan-era pattern was episodic: ease into market-functioning crises, protect liquidity, and let the system heal. The post-GFC regime made policy support persistent. Once investors learned that central-bank liquidity was not just a crisis tool but an enduring feature of the landscape, asset pricing adapted.

This was not costless. Low volatility encouraged more leverage. Low yields encouraged more illiquidity. Negative stock–bond correlation encouraged asset owners to assume duration was a reliable hedge. Private markets grew partly because marks were smoother and yields were scarce. Central-bank support reduced near-term volatility while increasing dependence on stable correlations, low real rates, and market depth.

A market system built on leverage, duration, collateral, private-market illiquidity, and policy liquidity can appear stable for long periods and then reprice violently when its core assumptions are challenged. The post-2020 world has challenged all three pillars at once: stock–bond diversification, sovereign-bond liquidity, and the assumption that policy can always ease into market stress.

9. Post-COVID rupture: fiscal impulse meets constrained supply

Too many nominal claims on constrained real capacity.

The pandemic revealed the latent constraint of the regime. Large fiscal transfers and monetary accommodation supported demand at the same time that supply chains, labor supply, energy, housing, and logistics were constrained. The result was not simply “too much money” in an abstract sense, nor simply a one-off supply disruption. It was excess nominal demand colliding with a system optimized for just-in-time efficiency and minimal inventory.

The initial inflation burst was driven heavily by commodity prices, sectoral price spikes, demand rotation toward goods, and constrained supply. Labor-market tightness mattered more for persistence than for the initial shock (Bernanke and Blanchard, 2025). The fiscal-theory framing adds another layer: if large fiscal shocks are not credibly financed, inflation can become more persistent because markets anticipate either future monetization, fiscal accommodation, or inadequate adjustment.

Demographics shaped inflation politics. Older households were hit twice — through income streams that don't index to inflation (private pensions, bond coupons, annuities) and through balance-sheet exposure to asset prices and rising health-care costs. Younger households were hit by rents, food, energy, and housing affordability. Both groups disliked inflation, but for different reasons. Inflation made the intergenerational bargain visible: prior asset-price gains had been privatized, while the cost of adjustment was distributed through real wages, higher mortgage rates, higher rents, and public debt.

For markets, the post-COVID rupture ended the assumption that every shock is ultimately disinflationary. Front-end rates repriced sharply. Real yields rose. Term premia reappeared. Bonds stopped reliably hedging equities when inflation uncertainty rose. Gold could be pressured by real rates and dollar liquidity even in geopolitical stress.

The dollar could rally for liquidity reasons while long-run reserve diversification concerns persisted. Correlation became a regime variable rather than a stable input.

The policy put is now conditional. The system still wants curve repair. But inflation risks make policy repair slower, more uncertain, and more politically fraught. A central bank that cuts too quickly after an energy or tariff shock risks boosting inflation. A central bank that stays tight risks exposing maturity transformation, private credit, and fiscal debt service. The corridor narrows: the room between defending inflation credibility on one side and protecting financial-system functioning on the other is smaller than at any point in the post-GFC period.

10. From imbalance to choke points

The same system that optimized for efficiency created concentrated control points.

In a benign globalization regime, concentration looked like efficiency. China specialized in manufacturing scale. Europe and Japan specialized in high-end industrial production, savings, and duration demand. The United States specialized in consumption, deficits, safe assets, finance, and technology. Energy routes and shipping lanes were assumed to be protected by a U.S.-led security order. Financial markets assumed dollar liquidity and Treasury collateral were reliable.

In a geopolitical-rivalry regime, those same concentrations become leverage. A country that controls rare-earth processing can impose a quantity shock. A regional actor that can threaten Hormuz can impose an energy tax on the world. A maritime confrontation in the South China Sea can turn sea lanes, cables, semiconductors, and alliance credibility into market variables. A fiscal shock in the United States can turn Treasury auctions and term premium into global risk factors.

Critical minerals illustrate the new logic. They may be more geopolitically unstable than oil because processing capacity is highly concentrated, the relevant technologies are still evolving, and institutional rules are weaker than the post-1973 oil framework. China dominates refining for rare earths, graphite, lithium, and cobalt to a degree that no single actor controls in oil. This makes availability and processing as important as spot price (Arezki, van der Ploeg, and Ross, 2026).

The South China Sea extends the logic to maritime infrastructure and alliance credibility. The region could become a U.S.–China flashpoint because it combines contested sovereignty, Chinese gray-zone coercion, Philippine alliance obligations, freedom of navigation, subsea cables, and weak crisis-management channels. The immediate stakes can look lower than Taiwan, which may paradoxically make risk-taking easier (Levin, 2026).

Hormuz is the energy analogue. It is a physical choke point through which a large share of seaborne oil, petroleum products, LNG, freight, and insurance exposure passes—roughly a quarter of global seaborne oil trade and around a fifth of global LNG trade in 2024–25. When Hormuz is disrupted, the market does not wait for macro data. It prices availability, inventories, insurance, freight, inflation expectations, central-bank reaction functions, and regional vulnerability. That is why the February–March 2026 episode mattered: it was not just an oil shock but was rather a real-time test of whether the old hedge architecture still worked. As we wrote in our [April 2026 CIO outlook](#), the answer was: not very well.

Exhibit 5. Choke points as market variables

Choke Point	Strategic Leverage	Market Translation
Trade war / tariffs	Prices, exemptions, retaliation, supply-chain rules, market access.	Goods inflation, margin pressure, capex delay, FX dispersion, term-premium uncertainty.
Rare earths / critical minerals	Licensing, quotas, processing, substitution chemistry, defense and battery inputs.	Availability premium, industrial dispersion, strategic-equity baskets, metals proxies, China beta.
South China Sea	Sea lanes, cables, maritime claims, Philippine alliance credibility, gray-zone incidents.	Asia FX risk, freight/insurance, semiconductor risk premium, defense bid, USD liquidity demand.
Hormuz	Oil, LNG, fertilizer, tanker traffic, insurance, tolling, inventories.	Energy shock, breakevens, front-end repricing, dollar bid, regional equity and FX dispersion.
Treasury / dollar funding	Reserve assets, collateral, repo, auction capacity, Fed-Treasury credibility.	Term premium, swap spreads, funding stress, reserve diversification, gold and neutral assets.

11. U.S. consolidation: strategy under fiscal and demographic constraint

The U.S. government is trying to rebuild power while reducing simultaneity risk.

Consolidation as a strategy is not retrenchment. It is the effort to concentrate national resources around the most important strategic priorities rather than remaining overextended across too many commitments at once. It is prioritization plus mobilization: reduce nonessential burdens, focus on the main competitor, shift more responsibility to allies, rebuild domestic industrial and technological capacity, and buy time. The target is the mismatch between U.S. commitments and U.S. resources (Mitchell, 2026).

This strategy centers around the learned lesson that the United States cannot be strong everywhere at once. The relevant constraint is the simultaneity problem: China as the main peer competitor, Russia as an active military threat, Iran as a regional disruptor, North Korea as a nuclear problem, and nonstate actors as persistent frictions. The U.S. defense-industrial base, shipbuilding capacity, munitions stockpiles, and fiscal position are not configured for multiple large conflict theaters at once.

Consolidation requires time and a supportive macro base - cheap and abundant energy; fiscal capacity so debt service does not crowd out defense and infrastructure; as well as critical minerals and semiconductors, shipbuilding, munitions, and power-grid investment.

Demographics make this harder. The same fiscal resources must finance retirement benefits, health care, debt service, defense, industrial policy, energy infrastructure, and AI. The same political system must ask older voters to accept benefit restraint or inflation risk, younger voters to accept higher debt and housing costs, and allies to accept more responsibility (Riedl, 2026).

The policy-put history makes consolidation harder still. A system accustomed to low real rates and policy liquidity may resist the higher real investment, higher defense spending, and higher supply-chain redundancy that resilience requires. Reshoring and friend-shoring are economically rational from a security perspective, but they are inflationary, capital-intensive, and margin-dilutive in the short run. Consolidation therefore conflicts with both the old efficiency regime and the financial market's desire for low discount rates.

12. Iran, Hormuz, and the test of the conditional put

A regional conflict becomes systemic when it hits energy, inflation, and the policy put at once.

The Iran conflict matters because it is the energy stress test for the consolidation strategy. A narrow campaign that reduced an external threat could be consistent with consolidation. A prolonged war that consumes munitions, raises energy prices, distracts from China, widens deficits, and damages domestic legitimacy undermines the strategy's central purpose. It recreates the overextension that consolidation is designed to escape.

Hormuz is not a marginal channel. Disruption affects oil, LNG, fertilizer, freight, inventories, petrochemicals, and inflation expectations. A ceasefire that leaves shipping politically conditioned (with tolling rights, vessel vetting, or inspections) is not the same as restored freedom of navigation. Markets can price a persistent geopolitical tax even without active kinetic escalation.

The March 2026 market reaction illustrated the new regime in real time. The shock was initially interpreted through an inflation lens. Front-end rates sold off and markets shifted from pricing easing toward pricing tightening. Treasuries did not provide the usual hedge. Gold weakened as real yields and dollar liquidity dominated safe-haven demand. Equities fell, the dollar rallied, and cross-asset correlations rose. The first move looked like a bear-flattening, dollar-liquidity, inflation-scare shock—not a classic growth scare.

Second-order logic is still likely growth damage. Large energy shocks tax consumers, compress margins, delay capex, and tighten financial conditions. But sequence matters. Markets can first trade the inflation lens, then growth damage, then central bank policy response. The old playbook—buy duration on geopolitical risk—is incomplete if the shock raises inflation and real rates before growth breaks.

A prolonged Iran conflict also interacts with China. It consumes U.S. attention, air defense, munitions, ISR, naval capacity, and political capital. It gives China a potential window to test rare-earth leverage, trade retaliation, South China Sea pressure, or Taiwan-adjacent coercion. It tests allies: partners may be asked to spend more on defense while facing higher energy costs and domestic inflation. The simultaneity problem becomes not just military but macro-financial.

Exhibit 6. How a prolonged Iran war derails consolidation

Constraint	Why It Matters	Market Consequence
Time	Consolidation requires focused respite to rebuild industrial and military capacity.	Higher policy uncertainty, delayed capex, more volatility, weaker confidence.
Energy	Cheap energy supports reindustrialization, AI data centers, household purchasing power, and allies.	Oil/LNG/fertilizer premia, breakevens, energy-importer FX pressure, margin dispersion.
Fiscal room	War spending and higher rates collide with debt service and entitlement obligations.	Higher term premium, auction risk, steeper curves, weaker long-duration assets.
Inventory	Munitions and air defense are consumed away from China planning.	Defense-sector dispersion, supply bottlenecks, industrial-policy urgency.
Allies	Burden shifting requires trust and capacity from partners.	Regional equity/FX dispersion, defense spending premia, Europe/Asia vulnerability.
Domestic legitimacy	Inflation, casualties, deficits, and uncertainty produce political blowback.	Policy volatility, risk premia, dollar liquidity bid in stress but reserve diversification over time.

13. The trading map: from liquidity beta to sequencing alpha

The unit of analysis shifts from global beta to access, sequencing, and control points.

The market consequences of accumulated imbalances are not limited to episodes of higher volatility. They change what markets are pricing. Under the old regime, investors could focus on the growth/inflation mix, central-bank reaction functions, and broad risk appetite. Under the new regime, investors must also price access, availability, inventories, freight, insurance, policy credibility, term premium, and correlation instability. That broadens the opportunity set for macro managers able to trade in scenarios rather than point forecasts.

The key distinction is between a geopolitical event and the market reaction function. An export restriction, tariff announcement, shipping disruption or military incident is not a trade itself. What matters is whether markets process the event as an inflation shock, growth shock, funding shock, credibility shock, or some sequence of all four. We organize the opportunity set across six pillars:

1. Curve trades: steepeners as the regime's cleanest expression: The clearest structural implication is that the financial system remains dependent on a positively sloped curve and low real rates. Inflationary choke-point shocks tend to destroy carry first: front-end rates rise, real rates rise, liquidity tightens, and traditional hedges can fail simultaneously. Growth damage and policy repair often arrive later. This creates a regime in which curves, real rates, and term premium become more important than simple directional views on growth or risk appetite. Hence, steepening pressure may be one of the most durable medium-term expressions of the regime transition, although the path is unlikely to be linear. The interaction between fiscal supply, inflation uncertainty, term premium, and policy credibility increases the probability of both curve volatility and sequencing-driven reversals.

The principal risk to the steepening thesis is a deflationary accident or flight-to-quality episode in which the long end rallies more aggressively than the front end, producing a bull flattening even as the broader macro thesis appears correct. Position crowding, negative carry, Treasury debt-management decisions, mortgage convexity hedging, and reserve-manager flows can also generate meaningful drawdowns or timing risk independent of the structural view (see Exhibit 7).

Exhibit 7. Risks to the steepener trade

Risk	Mechanism	Curve Direction	Signposts
Bull-flattening tail	Long end rallies past any term-premium floor on flight to quality, mortgage convexity, or duration demand while the front is anchored near a perceived rate floor.	Flattener	MOVE spikes, real yields collapsing, 10y outperforming 2y on risk-off days.
Position crowding	Steepeners are large and liquid; they get cut first when multi-strategy and CTA books reduce gross exposure.	Flattener (mechanical)	CFTC TFF report, dealer positioning surveys, gross/net leverage indicators.
Negative carry and roll-down	Upward-sloping curve imposes costs to hold; static-curve roll-down compresses the spread over time.	P&L bleed (not directional)	Carry tables by expression, breakeven spread moves, forward curve shape.
Treasury WAM shortening	Issuance shifted to bills and 2s, away from 10s and 30s; political incentive to suppress long yields for mortgage and debt-service optics.	Flattener	Quarterly Refunding Announcement, buyback schedules, dealer auction participation.
Foreign reserve duration shift	Marginal reallocation by foreign officials moves the long end independently of macro fundamentals.	Either direction	TIC data, custody holdings at FRBNY, central bank reserve communications.

Exhibit 7. Risks to the steepener trade (Continued)

Risk	Mechanism	Curve Direction	Signposts
Mortgage convexity hedging	MBS portfolios mechanically buy duration to maintain hedge ratios when rates fall and expected prepays accelerate.	Bull flattener	Mortgage rates, MBS OAS, MOVE on rates rallies.
Plumbing (basis, swap spreads, repo)	Financing and hedging mechanics decouple from macro views during dealer balance-sheet stress.	Usually flattener-coincident in stress	Swap spreads, SOFR-FF basis, repo rates, dealer balance-sheet metrics.
Inflation expectations re-anchor	Breakevens compress on choke-point resolution or tariff de-escalation; nominal long yields fall on term-premium decompression without growth weakness.	Bull flattener	Falling breakevens, softer CPI/PCE prints, tariff de-escalation, weaker commodity prices, long-end outperformance versus front end.

2. Inflation: convexity is attractive: Medium-term inflation pricing in many markets still assumes a relatively clean return to target with limited volatility around the path. We think that remains complacent. The drivers of upside inflation uncertainty are increasingly tied not only to demand, but to energy and geopolitics, reshoring, industrial policy, fiscal sustainability, strategic-input scarcity, and supply-chain fragmentation. The macro trading opportunity therefore lies less in making a simple directional inflation call and more in owning convex exposure to a wider distribution of inflation outcomes through curves, breakevens, real rates, commodities, and pricing-power assets.

3. FX: a two-horizon problem: The FX regime is increasingly shaped by a tension between short-term dollar liquidity strength and longer-term questions around fiscal sustainability, reserve diversification, and geopolitical fragmentation. The most compelling opportunities may lie in dispersion rather than broad directional USD views.

4. Commodities and strategic-input optionality: Energy remains the fulcrum of the choke point regime, while industrial metals and critical minerals increasingly function as strategic assets rather than purely cyclical commodities. The macro trading opportunity lies in owning optionality around supply disruptions, reshoring, electrification, AI infrastructure, and strategic scarcity through energy markets, industrial metals, critical-input equity baskets, and inflation-sensitive real assets. Gold also increasingly behaves less as a simple inflation hedge and more as a neutral reserve asset tied to fiscal credibility, reserve diversification, and long-term distrust of fiat balance-sheet expansion.

5. Equity and credit dispersion: Equities and credit increasingly reflect dispersion rather than broad beta. The macro trading opportunity lies in distinguishing between sectors and balance sheets that benefit from steeper curves, strategic scarcity, pricing power, defense spending, and domestic industrial capacity, versus those vulnerable to higher real rates, supply-chain fragility, funding stress, and liquidity mismatch. In credit, this also creates opportunities in quality differentiation, capital-structure positioning, and asymmetric hedges against private-credit and refinancing stress.

6. Volatility, correlation, and explicit tail hedges: Volatility and correlation are increasingly becoming structural features of the regime rather than temporary dislocations. The macro trading opportunity lies in tactically owning convexity, dispersion, and asymmetric hedges in markets where investors still often price correlations and volatility using assumptions from the pre-inflation, liquidity-abundant era. Rates volatility, cross-asset correlation shifts, equity skew, and scenario-driven tail hedges may therefore become more valuable as geopolitical shocks, inflation uncertainty, and funding stress increasingly propagate through markets in nonlinear ways.

The central trading implication is therefore not a single directional forecast, but a shift in framework. Macro investing increasingly requires understanding how shocks propagate through funding structures, curves, supply

chains, inflation expectations, and policy constraints—and how those reactions unfold over time rather than simultaneously.

Exhibit 8. Scenario sequencing and trading implications

Catalyst	First Reaction	Second-order Risk	Trading / Risk Lens
Hormuz / energy	Oil, LNG, freight, breakevens, front-end rates, USD liquidity bid.	Growth tax, margin squeeze, policy dilemma, Europe/Asia energy vulnerability.	Curve sequencing; energy/freight optionality; inflation RV; regional FX dispersion.
Rare-earth controls	Licensing premium, heavy rare-earth price spikes, defense/security-stock bid.	Production delays, capex rerouting, substitution risk, China retaliation.	Strategic-input dispersion; China beta; metals proxies; defense and industrial baskets.
Tariffs / trade war	Import-price shock, margin pressure, retaliation headlines.	Capex delay, inflation expectations, reserve diversification, lower visibility.	Inflation RV; curve steepeners; regional equity and FX relative value.
South China Sea incident	Asia risk premium, freight/insurance, defense bid, USD demand.	Alliance credibility test, semis/cable risk, escalation uncertainty.	Asia FX hedges; vol/correlation trades; defense/security dispersion.
Domestic rollover	Credit spreads widen, front-end cuts repriced, risk assets weaken.	Private-credit stress, labor slowdown, capex pause, policy repair.	Bull steepeners; credit hedges; quality dispersion; liquidity optionality.
Policy put constrained	Initial hedges fail; correlations rise; real rates and USD tighten conditions.	Forced deleveraging and eventual central-bank repair with sticky long-end risk.	Dynamic risk budget; stop-loss discipline; preserve liquidity for the second move.

Exhibit 9. Signposts that connect the plot to positions

Signpost	What It Indicates	Why It Matters
2s10s / curvature	Carry repair or carry destruction; recession risk versus inflation scare.	Core measure of the inverse-floater system's ability to roll.
Real 2y yields / real policy rate	Tightening of discount-rate and collateral conditions.	Rising real rates pressure duration, gold, housing, private assets, and fiscal math.
Term premium / auction tails	Compensation required for U.S. duration and fiscal supply.	Key expression of reserve privilege becoming market dependence.
Mortgage OAS / convexity hedging	Stress in duration and negative-convexity channels.	Housing and MBS are central transmission mechanisms.
Repo / swap spreads / Treasury depth	Funding pressure and dealer balance-sheet capacity.	Liquidity fragility determines whether shocks become forced selling.
Breakevens / inflation swaps	Market pricing of supply shocks and fiscal persistence.	Useful for separating inflation risk from nominal duration.
Hormuz traffic / tanker insurance	Physical energy availability rather than headline diplomacy.	Determines whether war premium fades or becomes a tax.
Rare-earth licensing / heavy RE prices	China supply-chain leverage and industrial bottlenecks.	Turns trade war into quantity shock.
South China Sea incidents	Alliance credibility and maritime escalation risk.	Links Asia FX, semis, freight, defense, and dollar liquidity.
Private-credit gates / BDC marks	Delayed credit stress and liquidity mismatch.	Can turn macro stress into public-market spillover.

14. Risk management: structural tail risk and adaptive process

If the policy put is conditional, risk management must be adaptive.

[Our prior work on tail risk](#) posits that tail risk has become a structural rather than episodic feature of modern markets (Foehrenbach, 2025). The reasons align with this paper's macro argument: positive stock–bond correlation in inflationary regimes, fragility in sovereign-bond liquidity, increased private-market illiquidity, volatility persistence, and the failure of historical covariance to predict regime breaks. A system built around liquidity support becomes more fragile when liquidity support is constrained.

The implication is not that macro managers should avoid risk. It is that risk processes must be designed around non-stationarity. Historical correlations describe the past but may not forecast the next shock. VIX and MOVE can tell us stress is happening but do not predict when it starts. Concentration metrics can identify fragility but not timing. Scenario analysis matters because the distribution itself changes when policy, inflation, or geopolitics changes.

Liquidity should be treated as option value. The ability to reduce, rotate, and add risk during dislocations is valuable precisely because dislocations create asymmetric opportunities. Portfolios that consume all liquidity before the event cannot exploit the event. Portfolios that rely on illiquid marks, stable funding, or one-way hedges may appear resilient until they need to move.

Dynamic risk budgeting is essential. Exposure should adjust with alpha strength, volatility, correlations, drawdown behavior, liquidity, and event sequencing. Position-level risk matters because a theme can be right but expressed in the wrong part of the curve, wrong currency, wrong maturity, or wrong liquidity bucket. Portfolio-level risk matters because shocks make independent positions suddenly correlated. Signal-level risk matters for quantitative strategies because historical relationships can invert under regime change.

Hedge humility is essential. A market structurally short the curve can rally violently when policy repair becomes credible. A market positioned for recession can sell off if a supply shock forces front-end rates higher. A safe haven can fail if real yields and dollar liquidity dominate. A geopolitical event can generate a first move that is the opposite of the eventual macro logic. Risk management must therefore separate first-order price action from second-order macro effects.

The objective is not to statically withstand every possible tail event. That is too expensive and impairs returns. The objective is to **preserve survival, optionality, and governance capacity** while adapting as the regime reveals itself. In practice, that means liquidity, stop-loss discipline, scenario playbooks, stress tests, portfolio diversification by true risk factor, and the combination of quantitative monitoring with discretionary judgment.

Exhibit 10. Risk-management principles for the choke point regime

Principle	Application
Liquidity as option value	Hold enough liquid risk budget to reduce, rotate, and add during dislocations rather than being forced to sell.
Dynamic risk budget	Scale exposures with volatility, correlation, alpha strength, drawdown, liquidity, and scenario confidence.
Multi-level controls	Monitor portfolio, position, signal, sector, liquidity bucket, and funding risk.
Scenario discipline	Model inflation shock, growth damage, funding stress, correlation convergence, and policy repair as sequences.
Hedge humility	Assume bonds, gold, USD, and commodities may fail as hedges in some regimes and work in others.
Governance muscle memory	Define decision rights before volatility spikes; avoid building process under duress.
Convexity with restraint	Seek asymmetric payoffs while avoiding structures that consume liquidity before the opportunity appears.

15. What would challenge the framework?

A good macro thesis should specify what could make it wrong or incomplete.

The most obvious challenge to this framework would be a **productivity acceleration** large enough to absorb fiscal deficits, labor shortages, defense spending, and reindustrialization without renewed inflation pressure. AI is the obvious candidate. If AI-driven productivity raises real growth before it displaces demand or labor income, the system could carry higher debt and higher investment without higher term premia. The risk is timing: productivity may arrive after markets have already repriced labor, capex, and fiscal risk.

The second challenge would be **credible fiscal consolidation** or growth-friendly fiscal rebalancing. If the United States can finance defense, energy, AI, and industrial capacity without worsening debt dynamics, term premium could stabilize. That would support risk assets and restore some confidence in U.S. duration. The political difficulty is that demographics make benefit cuts hard and industrial strategy requires upfront spending.

The third challenge would be a **durable U.S.–China geoeconomic détente**. If tariffs stabilize, rare-earth access is governed by reliable rules, and China rebalances toward domestic consumption, the choke point premium could fall. But such a détente would need to be credible enough to change investment behavior, not merely tactical enough to pause escalation.

The fourth challenge would be **abundant cheap energy**. If U.S. and allied energy supply expands quickly, LNG flows normalize, nuclear and grid investment accelerate, and Hormuz risk fades, the inflationary component of consolidation would be reduced. Cheap energy is the most constructive path because it supports both household affordability and industrial mobilization simultaneously.

The fifth challenge would be a return to **credible, unconstrained policy easing**. If inflation falls convincingly and growth weakens, central banks could cut rates, restore curve slope, and revive the old policy put. The complication is that this would likely support markets in the short run while potentially rebuilding the same leverage and duration dependence that created the fragility in the first place.

For each of these, the right discipline is to define ex ante what evidence would shift conviction, rather than to wait for the narrative to shift on its own.

16. Conclusion: the macro regime after the policy put

Markets are now pricing the limits of balance-sheet politics.

The central claim of this paper is that the present regime is the outcome of a long balance-sheet story. Demographics increased the desire for safety and asset protection. The Greenspan-era policy put conditioned investors to expect liquidity support when carry broke. Globalization and China's WTO entry supplied goods disinflation and corporate margins. Europe, Japan, China, and other surplus economies supplied savings. The United States supplied safe assets, fiscal absorption, and the dollar balance sheet. The GFC exposed the fragility. QE institutionalized the support. COVID inflation revealed the real constraint. Today, geopolitical rivalry has turned concentrated efficiency into strategic leverage.

This perspective changes how we think about both policy and markets. The question is not whether globalization was good or bad, whether QE was necessary or excessive, or whether demographics made the outcome inevitable. Each binary framing is too simple. The more useful point is that the system accumulated nominal claims, duration, leverage, and promises that could be sustained only under favorable conditions: cheap goods, low real rates, a positive curve, abundant liquidity, and protected supply routes.

At the center of that system sits the yield curve itself. Modern finance is built on maturity transformation: long-duration and often leveraged assets financed through shorter-term liabilities and discount rates. A positively sloped curve and low real rates help the system roll itself by supporting carry, collateral values, refinancing, and balance-

sheet stability. When inflation, supply shocks, or fiscal concerns flatten the curve and raise real rates, the fragility embedded in that structure is exposed. The system is not simply sensitive to the curve; it is structurally dependent on it.

Those favorable conditions are no longer guaranteed. Choke points expose where real constraints bind: energy, labor, minerals, shipping, defense capacity, fiscal space, and policy credibility. Consolidation is the U.S. attempt to rebuild the power base before those constraints become unmanageable. A prolonged Iran war or a simultaneous China/Hormuz shock would be disruptive precisely because it forces the United States to spend the resources—time, energy, fiscal room, munitions, and political legitimacy—that consolidation is trying to rebuild.

For macro trading, the regime is challenging but rich. The opportunity set is not a single forecast. It is the disciplined mapping of shocks into market sequences: inflation scare, carry destruction, dollar liquidity, growth damage, policy repair, and term-premium persistence. The trades are in curves, real rates, inflation markets, FX dispersion, commodities, strategic-input optionality, equity and credit dispersion, and volatility. The risk management is adaptive, liquidity-aware, and humble about correlations.

In the old regime, the market could often assume that policy would rescue the financial system before inflation objected. In the new regime, inflation can object first. That is the difference between a simple policy put and a conditional one. It is also why the yield curve, real rates, and choke points now sit at the center of the macro trading map.



SELECTED SOURCES

Macro framework and policy put

Bernanke, Ben S. The Global Saving Glut and the U.S. Current Account Deficit. Sandridge Lecture, 2005.

Caballero, Ricardo, Emmanuel Farhi, and Pierre-Olivier Gourinchas. An Equilibrium Model of Global Imbalances and Low Interest Rates. *American Economic Review*, 2008.

Mullin, John. The Fed, the Stock Market, and the Greenspan Put. Federal Reserve Bank of Richmond Econ Focus, 2023.

Demographics, saving, and real rates

Carvalho, Carlos, Andrea Ferrero, and Fernanda Nechio. Demographics and Real Interest Rates: Inspecting the Mechanism. *European Economic Review*, 2016.

Goodhart, Charles, and Manoj Pradhan. *The Great Demographic Reversal*. Palgrave Macmillan, 2020.

International Monetary Fund. *China's High Savings: Drivers, Prospects, and Policies*. IMF Working Paper, 2018.

Mian, Atif, Ludwig Straub, and Amir Sufi. *The Saving Glut of the Rich*. NBER Working Paper No. 26941, 2020.

China, trade, and distribution

Autor, David, David Dorn, and Gordon Hanson. The China Syndrome: Local Labor Market Effects of Import Competition in the United States. *American Economic Review*, 2013.

Kamin, Steven, Mario Marazzi, and John Schindler. Is China Exporting Deflation? Federal Reserve IFDP, 2004.

Packer, George. *The Unwinding: An Inner History of the New America*. Farrar, Straus and Giroux, 2013.

Inflation and post-COVID rupture

Bernanke, Ben S., and Olivier J. Blanchard. What Caused the U.S. Pandemic-Era Inflation? *American Economic Journal: Macroeconomics*, 17(3), 2025, pp. 1–35. (Originally Brookings Hutchins Center Working Paper, June 2023.)

Tooze, Adam. *Crashed: How a Decade of Financial Crises Changed the World*. Viking, 2018.

Geopolitics and choke points

Arezki, Rabah, Frederick van der Ploeg, and Michael L. Ross. The New Resource Curse: How Critical Minerals Will Scramble Geopolitics. *Foreign Affairs*, April 2026.

Levin, Henrietta. The Other China Flash Point: Like Taiwan, the South China Sea Could Spark a U.S.–China War. *Foreign Affairs*, April 2026.

Mitchell, A. Wess. A Grand Strategy of Consolidation: How Trump Can Revitalize American Power. *Foreign Affairs*, April 21, 2026.

Fiscal

Riedl, Brian. *Spending, Taxes, and Deficits: A Book of Charts*. Brookings Institution, 2026 (drawing on prior Manhattan Institute editions).

Previous Graham Capital Management publications

Foehrenbach, Jens. Tail Risk as a Structural Feature of Modern Markets, September 2025.

Foehrenbach, Jens and Calderini, Pablo. From Policy Volatility and Market Resilience in 2025 to a Transition Year in 2026, January 2026 CIO Outlook.

Foehrenbach, Jens. From Cyclical Reacceleration to Geopolitical Regime Shift, April 2026 CIO Outlook.



DISCLOSURE

PURSUANT TO AN EXEMPTION FROM THE COMMODITY FUTURES TRADING COMMISSION IN CONNECTION WITH ACCOUNTS OF QUALIFIED ELIGIBLE PERSONS, THIS BROCHURE OR ACCOUNT DOCUMENT IS NOT REQUIRED TO BE, AND HAS NOT BEEN, FILED WITH THE COMMISSION. THE COMMODITY FUTURES TRADING COMMISSION DOES NOT PASS UPON THE MERITS OF PARTICIPATING IN A TRADING PROGRAM OR UPON THE ADEQUACY OR ACCURACY OF COMMODITY TRADING ADVISOR DISCLOSURE. CONSEQUENTLY, THE COMMODITY FUTURES TRADING COMMISSION HAS NOT REVIEWED OR APPROVED THIS TRADING PROGRAM OR THIS BROCHURE OR ACCOUNT DOCUMENT.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Source of data: Graham Capital Management ("Graham"), unless otherwise stated.

Date of data: All information is presented as of the date listed at the front of this document unless otherwise stated. A reference to "currently" means as of the date on the front of the document. The funds managed by Graham are only suitable for sophisticated investors who are aware of the risks of investing in hedge funds.

This document is neither an offer to sell nor a solicitation of any offer to buy shares in any fund managed by Graham and should not be relied on in making any investment decision. Any offering is made only pursuant to the relevant prospectus, together with the current financial statements of the relevant fund and the relevant subscription documents all of which must be read in their entirety. No offer to purchase shares will be made or accepted prior to receipt by the offeree of these documents and the completion of all appropriate documentation. The shares have not and will not be registered for sale, and there will be no public offering of the shares. No offer to sell (or solicitation of an offer to buy) will be made in any jurisdiction in which such offer or solicitation would be unlawful. No representation is given that objectives will be achieved. This document may contain opinions of Graham and such opinions are subject to change without notice. Information provided about positions, if any, and attributable performance is intended to provide a balanced commentary, with examples of both profitable and loss-making positions, however this cannot be guaranteed.

It should not be assumed that investments that are described herein will be profitable, and all investments have the risk of loss. Nothing described herein is intended to imply that an investment in the fund is safe, conservative, risk free or risk averse. An investment in funds managed by Graham entails substantial risks and a prospective investor should carefully consider the summary of risk factors included in the Private Offering Memorandum entitled "Risk Factors" in determining whether an investment in the Fund is suitable. This investment does not consider the specific investment objective, financial situation or particular needs of any investor and an investment in the funds managed by Graham is not suitable for all investors. Prospective investors should not rely upon this document for tax, accounting or legal advice. Prospective investors should consult their own tax, legal accounting or other advisors about the issues discussed herein. Investors are also reminded that past performance should not be seen as an indication of future performance and that they might not get back the amount that they originally invested. The price of shares of the funds managed by Graham can go down as well as up and be affected by changes in rates of exchange. No recommendation is made positive or otherwise regarding individual securities mentioned herein.

This document includes statements that may constitute forward-looking statements. These statements may be identified by words such as "expects," "looks forward to," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "project" or words of similar meaning. In addition, our representatives may from time to time make oral forward-looking statements. Such statements are based on the current expectations and certain assumptions of Graham's management, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Graham's control, affect the operations, performance, business strategy and results of the accounts that it manages and could cause the actual results, performance or achievements of such accounts to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements or anticipated on the basis of historical trends.

This document has been prepared solely for information purposes and is not an offering memorandum nor any other kind of an offer to buy or sell or a solicitation of an offer to buy or sell any security, instrument or investment product or to participate in any particular trading strategy. It is not intended and should not be taken as any form of advertising, recommendation, investment advice or invitation to trade. This information is confidential and for the use of the intended recipients only. The distribution of this document in Canada is restricted to recipients in certain Canadian jurisdictions only who are qualified "permitted clients" for purposes of NI 31-103 and "accredited investors" for purposes of NI 45-106. It may not be reproduced, redistributed or copied in whole or in part for any purpose without prior written consent.

The information contained in this document is strictly confidential and is intended only for use of the individual to whom Graham has provided the document.

Tables, charts and commentary contained in this document have been prepared on a best efforts basis by Graham using sources it believes to be reliable although it does not guarantee the accuracy of the information on account of possible errors or omissions in the constituent data or calculations. No part of this document may be divulged to any other person, distributed, resold and/or reproduced without the prior written permission of Graham.