

MCS ADVISORY · CONFIDENTIAL

# Strategic Asset Allocation:

An ETF Portfolio Designed to

**Outperform the S&P 500**

*Forecast Horizon: May 2026 to November 2026*

**Prepared MCS**

MCS Advisory | May 3, 2026

## PRESENTATION ROADMAP

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## INVESTMENT THESIS

# The Investment Thesis

Beat the S&P 500 over six months by **tilting away from cap-weighted concentration** and toward the macro themes that should drive H2 2026 returns: **AI infrastructure capex, OBBBA 100% expensing, the April 2026 tax-refund consumer impulse, the geopolitical premium, and EM growth.** The portfolio holds the asset classes most aligned with growth re-acceleration: AI-supply-chain semiconductors, small-cap value, mid-cap, defense, utilities for data-center power demand, and India and Brazil for EM growth.

### THE 5 DRIVERS



*Sub-asset diversification: gold (GLD 5%) and energy (XLE 6%) as tail-risk insurance against Iran re-escalation; floating-rate bonds (FLOT 10%) and quality dividends (SCHD 6%) as defensive ballast; preferred stock (PFF 2%) for rate-cut convexity; Canada (EWC 5%) and Switzerland (EWL 2%) for global diversification.*

Source: Allocation engineered May 3, 2026 vs. S&P 500 cap-weighted index.

## United States: Growth Re-Acceleration

**+2.0%**

Q1 2026 GDP

annualized rate

**5.3%**

Atl Fed Q4 Nowcast

Q4 2025

**2.2%**

CBO 2026 GDP

raised from 1.8%

**+1.2%**

OBBBA Boost

Tax Foundation 2026

**~4%**

CEA Forecast

annual growth

## WHY THIS MATTERS FOR THE PORTFOLIO

### MACRO SIGNALS

- **OBBBA 100% capex expensing**
  - Permanent post Jan 19 2025 (P.L. 119-21)
- **Big Tech Q1 2026 strong despite \$700B capex**
  - Meta rev +33%, MSFT AI +123%, AMZN beat
- **April 2026 tax refund wave > 2025**
  - Permanent TCJA rates + new deductions

### PRICE & RATE SIGNALS

- **PCE 3.5% YoY, Core 3.2% YoY (Mar 2026)**
  - CBO sees 2.7% in 2026, 2% by 2030, not sticky
- **Fed Funds 3.50-3.75% (April 28-29 hold)**
  - Warsh Chair from May 15; dovish bias
- **Unemployment 4.3%, payrolls +178k March**
  - Labor balanced, not weak

Source: BEA Q1 2026 GDP advance estimate; CBO Feb 2026 Outlook; Tax Foundation Feb 2026; Atlanta Fed GDPNow; BLS Mar 2026.

# Europe Soft, Asia Mixed, India Leads

EUROZONE	UNITED KINGDOM	JAPAN	CHINA	INDIA
<p><b>+0.1%</b> <i>Q1 GDP q/q</i></p> <p><b>3.0%</b> <i>April HICP</i></p> <p><b>2.00%</b> <i>ECB rate</i></p> <p><b>0.9%</b> <i>ECB 2026 GDP</i></p>	<p><b>Hawkish</b> <i>BoE stance</i></p> <p><b>Sticky</b> <i>Services CPI</i></p> <p><b>Strong</b> <i>Sterling rally</i></p> <p><b>Weak</b> <i>Real disp income</i></p>	<p><b>0.75%</b> <i>BoJ policy rate</i></p> <p><b>2.8%</b> <i>FY26 core CPI</i></p> <p><b>0.5%</b> <i>FY26 GDP</i></p> <p><b>High since 1995</b> <i>BoJ rate</i></p>	<p><b>+5.0%</b> <i>Q1 GDP YoY</i></p> <p><b>+14.7%</b> <i>Exports surge</i></p> <p><b>+2.4%</b> <i>Retail sales weak</i></p> <p><b>4.5%</b> <i>UBS 2026 fcst</i></p>	<p><b>7.4%</b> <i>FY26 GDP</i></p> <p><b>GST 2.0</b> <i>consumption boost</i></p> <p><b>60%+</b> <i>domestic-driven</i></p> <p><b>INDA 5%</b> <i>increased from 3%</i></p>
<p>Excluded: ECB easing offset by oil-import drag.</p>	<p>Excluded: yield-curve sensitivity in financial-heavy index.</p>	<p>Excluded: BoJ hike risk into weak growth.</p>	<p>Excluded per user direction; AI exposure via SMH (TSMC).</p>	<p>Included: fastest-growing major EM; lowest geopol risk.</p>

Source: CNBC Eurozone Inflation Apr 30, 2026; ECB Mar 2026 Projections; CNBC BoJ Hold Apr 28, 2026; UBS China Outlook 2026-27; J.P. Morgan India Outlook.

## Iran War: Oil Now Normalizing

**\$116**

**Brent peak**

*early March 2026*

**\$91**

**Brent late Apr**

*Capital.com Apr 21*

**\$70-90**

**Year-end consensus**

*GS, JPM, MS, EIA*

**20→3.8 mb/d**

**Hormuz throughput**

*Feb to early Apr*

### INSTITUTIONAL FORECASTS FOR 2026 BRENT

<b>Goldman Sachs</b>	\$85 / bbl	2026 average	Base case
<b>J.P. Morgan</b>	\$60 / bbl	Quick-resolution case	Bear case
<b>Morgan Stanley</b>	\$110 / Q2 → \$80 / 2027	Premium persists then fades	Slow normalization
<b>EIA</b>	\$76 / bbl in 2027	Disruptions through late 2026	Updated +\$23
<b>Barclays</b>	\$85 / bbl	Full year 2026	Hormuz normalization

**IMPLICATION:** Dominant case is partial normalization. Energy and gold remain useful as tail hedges but should NOT be sized for sustained \$120+. Reduced XLE 12%→6% and GLD 10%→5%; removed DBC entirely.

*Source: Capital.com Crude Forecast April 21, 2026; CNBC Iran Ceasefire April 22, 2026; IEA Oil Market Report April 2026; EIA STEO April 7, 2026.*

## US Dollar: Range-Bound, Slight Downward Bias

### DXY 6-MONTH FORECAST

~98

DXY late April 2026

- Base case: 94 to 100 range over six months
- Speculative net position at 18th percentile (heavily bearish)
- MUFG sees ~5% USD weakening in 2026
- Cambridge Currencies: DXY 92-97 by Q4 2026
- EUR/USD year-end target 1.24 (MUFG)

### PORTFOLIO POSITIONING

#### EWC, EWZ, INDA

Unhedged; benefit from local-currency strength

#### GLD

Direct beneficiary of dollar weakness

#### EWL

Defensive CHF safe-haven exposure

#### SMH, RSP, MDY, IWN

Multinational earnings translate stronger

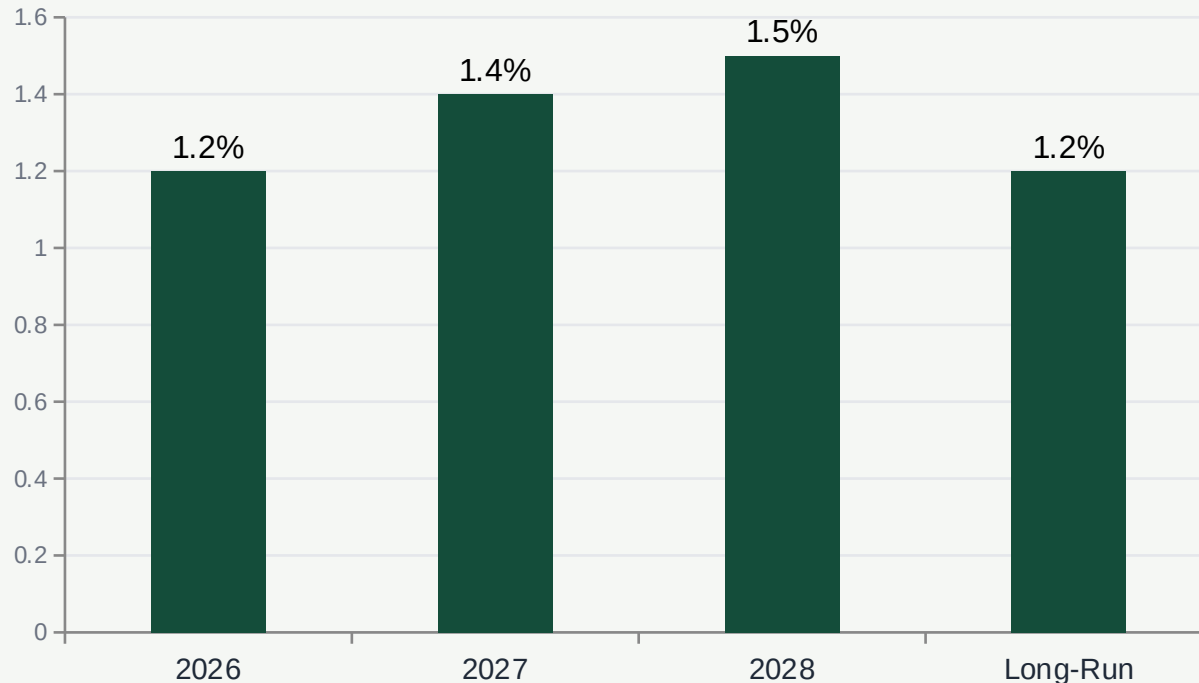
#### FLOT, PFF, SCHD

USD-denominated, immune to FX

## OBBBA: Permanent 100% Capex Expensing

Signed July 4, 2025 (P.L. 119-21). Permanently restored 100% bonus depreciation for property placed in service after Jan 19, 2025.

### ESTIMATED GDP BOOST FROM OBBBA (% above baseline)



#### WHAT THIS MEANS FOR THE PORTFOLIO

- **Capital-intensive companies benefit most**
  - IWN (small-cap value), MDY (mid-cap)
- **Equipment, software, machinery 100% Year 1**
  - SMH (semiconductor capex), RSP (broad)
- **Includes R&D expensing**
  - Higher cash flow for AI build-out
- **Tax Foundation: +1.2% GDP in 2026**

Source: Tax Foundation Feb 2026 (CBO-aligned modeling); BDO, KBKG, Wipfli analysis of P.L. 119-21; CBO Feb 11, 2026 Outlook.

## Big Tech Q1 2026: AI Capex Is Working

**\$700B** Combined hyperscaler 2026 capex guidance, **+75% YoY** (Bloomberg, Sherwood News, April 2026)

### Microsoft (MSFT)

Revenue: **\$82.9B +18%**

**\$37B**

AI rev annualized, +123% YoY

### Alphabet (GOOGL)

Revenue: **\$109.9B +12%**

**\$20B**

Google Cloud, beat by ~\$2B

### Meta Platforms (META)

Revenue: **\$56.3B +33%**

**\$10.44**

EPS, +62% YoY

### Amazon (AMZN)

Revenue: **\$181.5B +17%**

**\$2.78**

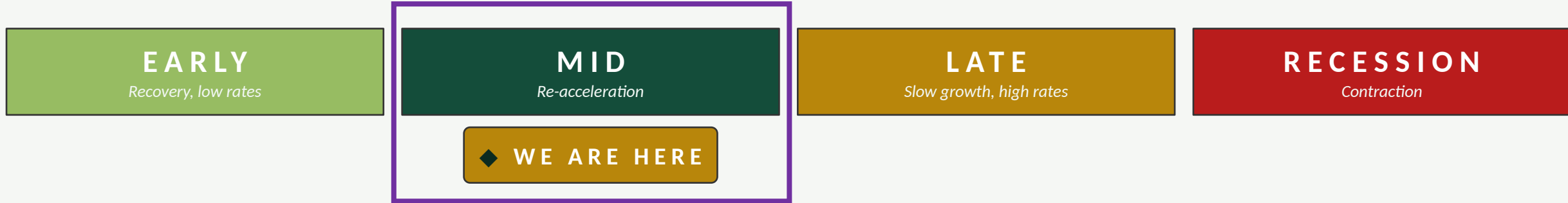
EPS vs \$1.62 estimate

**NUANCED TAKEAWAY:** Current AI revenue (MSFT \$37B, Meta +33%, Google +19%) reflects 2023-2024 capex now operational. The 2026 \$700B is forward-looking; ROI gap is real (Meta -6% post-print on raised capex). **SMH thesis still holds:** chip suppliers (NVDA, TSMC, AVGO) get paid as chips ship, not when data centers go online. SMH is exposed to capex DEPLOYMENT, not just revenue conversion.

Source: SEC EDGAR 8-K filings (April 29-30, 2026); MUFG Capital Markets Strategy Vol 1 (Feb 2026, p.17 GPT investment precedes returns); Sherwood News April 30, 2026.

## BUSINESS CYCLE POSITIONING • THE FRAMEWORK

### Where We Are: Mid-Cycle Re-Acceleration



### CYCLE SIGNALS, Q2 2026

<b>Real GDP growth</b>	2.0% Q1 (CBO 2.2% 2026 raised)	<i>Re-acceleration vs. 0.5% Q4</i>
<b>Earnings</b>	Big Tech +33% Meta, MSFT AI +123%	<i>Strong, broad</i>
<b>Capex</b>	\$700B hyperscaler 2026 (+75%)	<i>Capex super-cycle</i>
<b>Fed Funds</b>	3.50-3.75% (likely cuts H2)	<i>Easing setup</i>
<b>Tax Policy</b>	OBBBA 100% expensing permanent	<i>Pro-investment</i>
<b>Yield Curve</b>	Steeping (10y minus 2y +0.40)	<i>No recession signal</i>

Source: BEA Q1 2026 Advance; CBO Feb 2026 Outlook; Tax Foundation Feb 2026; Sherwood News April 2026; SEC EDGAR.

## BUSINESS CYCLE • HISTORICAL HIT RATES

### Sector Performance Mapped to Cycle Phase (based on Fidelity hit rate matrix)

Sector	Early	Mid	Late	Recession	In Portfolio?
Technology	++	+	-	-	Yes - SMH 12%
Industrials	++	+	0	-	Indirect via RSP/MDY
Materials	+	+	0	-	Indirect via RSP/EWC
Cons. Discr.	+	0	-	-	No
Financials	+	+	0	--	No
Healthcare	0	+	+	+	Indirect via SCHD/EWL
Cons. Staples	-	0	+	+	Indirect via SCHD
Energy	0	+	+	-	Yes - XLE 6%
Utilities	-	0	+	+	Yes - XLU 6% (AI capex)
Aerospace/Def	+	++	+	0	Yes - ITA 10%
Comm Svcs	+	0	-	-	No
Real Estate	+	0	0	-	No

**SCORING:** ++ strong outperformance, + outperforms, 0 in line, - underperforms, -- strong underperformance. *Per Fidelity AART business-cycle methodology, 1962-2024*

Source: Fidelity Asset Allocation Research Team Business Cycle Approach to Equity Sector Investing, 1962-2024.

## YTD 2026 Returns Already Validate the Thesis

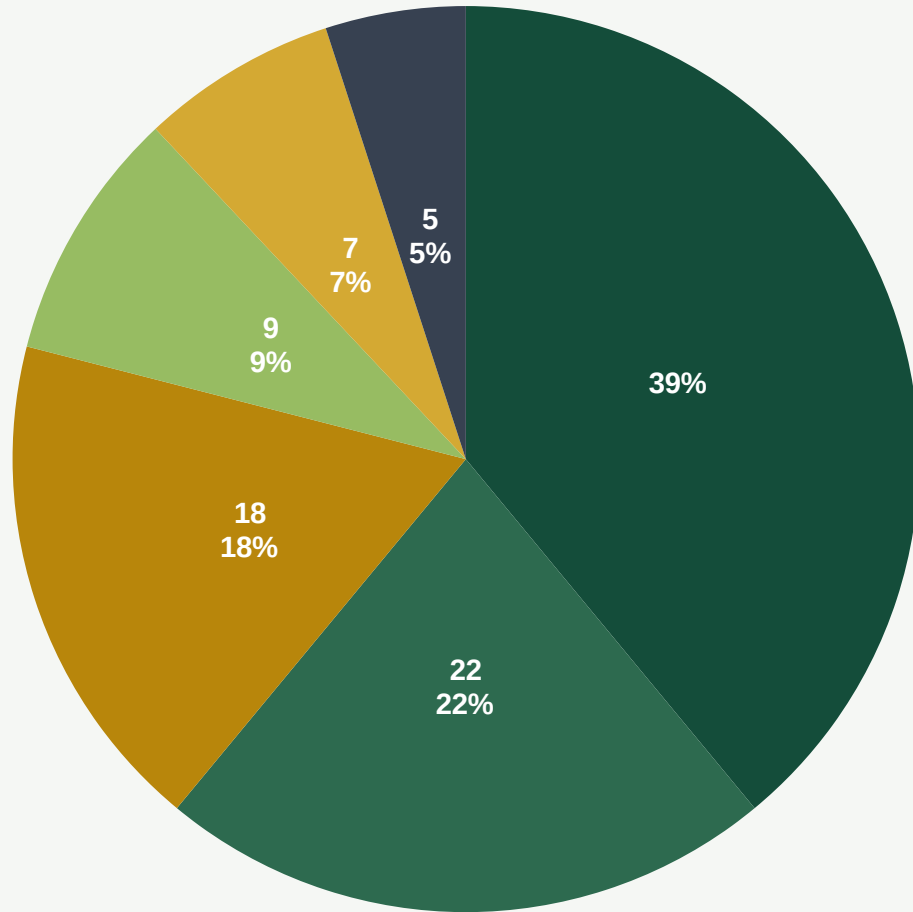
MARKET LEADERS (YTD 2026 % thru May 2)		
<b>XLE</b>	Energy SPDR	<b>+31.6%</b>
<b>EWZ</b>	iShares MSCI Brazil	<b>+24.1%</b>
<b>IWC</b>	iShares Micro-Cap	<b>+15.4%</b>
<b>IJR/IWN</b>	Small-Cap proxy	<b>+14.4%</b>
<b>XLB</b>	Materials SPDR	<b>+13.2%</b>
<b>XLK</b>	Technology SPDR	<b>+12.4%</b>
<b>XLI</b>	Industrials SPDR	<b>+11.5%</b>
<b>MDY</b>	S&P MidCap 400	<b>+10.1%</b>
<b>VEA</b>	Developed ex-US	<b>+10.0%</b>
<b>QQQ</b>	Nasdaq 100	<b>+9.7%</b>
<b>XLU</b>	Utilities SPDR	<b>+9.0%</b>

MARKET LAGGARDS (YTD 2026 % thru May 2)		
<b>XLF</b>	Financials SPDR	<b>-5.2%</b>
<b>MCHI</b>	MSCI China	<b>-3.9%</b>
<b>UNG</b>	Natural Gas Fund	<b>-12.6%</b>
<b>TLT</b>	20+ Year Treasury	<b>-1.8%</b>
<b>BND</b>	US Aggregate Bond	<b>-1.0%</b>
<b>XLY</b>	Cons Discretionary	<b>-0.7%</b>
<b>XLC</b>	Comm Services	<b>-0.9%</b>
<b>EWG</b>	MSCI Germany	<b>-0.4%</b>
<b>VCSH</b>	Short Corp Bond	<b>-0.9%</b>
<b>XLV</b>	Health Care SPDR	<b>-6.2%</b>
<b>BWX</b>	Intl Govt Bond	<b>-1.3%</b>

**VALIDATION:** Portfolio tilts (energy, EM, small/mid-cap, tech, utilities) align with leaders. Excluded sectors (financials, China, long bonds, cons disc) align with laggards.

## PORTFOLIO CONSTRUCTION

# Strategic Asset Allocation: 100% Across 6 Classes



■ US Equity 39% ■ Sectors 22% ■ Income 18%  
■ EM 9% ■ Global 7% ■ Commodities 5%

## ASSET CLASS WEIGHTS

<b>US Equity</b>	<b>39%</b>	<i>Index, mid, small, growth, value</i>
<b>Sectors</b>	<b>22%</b>	<i>Energy, Defense, Utilities</i>
<b>Income</b>	<b>18%</b>	<i>Bonds, Dividends, Preferreds</i>
<b>Emerging Markets</b>	<b>9%</b>	<i>India 5%, Brazil 4%</i>
<b>Global Equity</b>	<b>7%</b>	<i>Canada, Switzerland</i>
<b>Commodities</b>	<b>5%</b>	<i>Gold (DBC removed)</i>
<b>TOTAL</b>	<b>100%</b>	<i>15 holdings, ~0.26% blended</i>

Source: MCS Advisory portfolio engineering, May 3, 2026.

## PORTFOLIO CONSTRUCTION • FULL DETAIL

### All 15 Holdings at a Glance

Class	Ticker	Full Name	Wt	Expense	Why It's Here
US Eq	<b>RSP</b>	Invesco S&P 500 Equal Weight ETF	<b>12%</b>	0.20%	Concentration mitigation
US Eq	<b>IWN</b>	iShares Russell 2000 Value ETF	<b>10%</b>	0.24%	OBBBA expensing + tax refunds
US Eq	<b>SMH</b>	VanEck Semiconductor ETF	<b>12%</b>	0.35%	AI capex picks-and-shovels
US Eq	<b>MDY</b>	SPDR S&P MidCap 400 ETF Trust	<b>5%</b>	0.22%	Mid-cap, capital-intensity benefit
Sector	<b>XLE</b>	Energy Select Sector SPDR Fund	<b>6%</b>	0.08%	Iran tail-risk insurance
Sector	<b>ITA</b>	iShares US Aerospace & Defense ETF	<b>10%</b>	0.40%	Multi-year defense premium
Sector	<b>XLU</b>	Utilities Select Sector SPDR Fund	<b>6%</b>	0.08%	AI data-center power demand
Income	<b>FLOT</b>	iShares Floating Rate Bond ETF	<b>10%</b>	0.15%	0.01yr duration; 4.06% SEC yield
Income	<b>SCHD</b>	Schwab US Dividend Equity ETF	<b>6%</b>	0.06%	Quality dividend ballast
Income	<b>PFF</b>	iShares Preferred & Income Securities ETF	<b>2%</b>	0.46%	Rate-cut convexity, ~6% yield
Comm	<b>GLD</b>	SPDR Gold Shares	<b>5%</b>	0.40%	Tail hedge; central bank floor
Global	<b>EWC</b>	iShares MSCI Canada ETF	<b>5%</b>	0.50%	Energy & materials, US-correlated
Global	<b>EWL</b>	iShares MSCI Switzerland ETF	<b>2%</b>	0.50%	Defensive healthcare/staples
EM	<b>INDA</b>	iShares MSCI India ETF	<b>5%</b>	0.62%	7.4% GDP, GST 2.0 reforms
EM	<b>EWZ</b>	iShares MSCI Brazil ETF	<b>4%</b>	0.59%	Real rates 12%+, +24% YTD

Source: iShares, SSGA SPDR, Invesco, VanEck, Schwab issuer pages and fact sheets, March 31, 2026; SEC EDGAR 497K filings.

## US Equity, 39%

### RSP Invesco S&P 500 Equal Weight 12%

- P/E 22.8x ; ~500 holdings ~0.2% each
- Concentration mitigation vs cap-weight
- Cheaper than S&P 500 ~24x P/E
- Captures broadening AI rally

### IWN iShares Russell 2000 Value 10%

- Small-cap value, 1378 holdings
- OBBBA 100% expensing direct beneficiary
- April tax refund consumer impulse
- Highest beta to a Fed pivot

### SMH VanEck Semiconductor 12%

- NVDA 19.7%, TSMC 11.7%, AVGO 7.8%
- AI capex picks-and-shovels
- Cleaner than QQQ (no consumer-tech)
- Q1 2026 hyperscaler capex \$700B+

### MDY SPDR S&P MidCap 400 ETF Trust 5%

- ~400 mid-cap names ; +10.1% YTD
- Sweet spot for OBBBA expensing
- Domestic-revenue concentration
- Earnings-broadening play

**REJECTED:** SPY (this is the benchmark) ; QQQ (consumer-tech beta, SMH cleaner) ; IWO (small-cap growth, unprofitable)

## Sectors and Subsectors, 22%

<b>XLE</b> Energy Select Sector SPDR <b>6%</b>	<b>ITA</b> iShares US Aerospace & Defense <b>10%</b>	<b>XLU</b> Utilities Select Sector SPDR <b>6%</b>
<ul style="list-style-type: none"> <li>• XOM 22.2%, CVX 16.6%, COP 7.1%</li> <li>• Iran tail-risk insurance (reduced 12→6%)</li> <li>• FactSet Q2 EPS growth +71%</li> <li>• Forward P/E 12x vs S&amp;P 500 ~21x ; 0.08% fee</li> </ul>	<ul style="list-style-type: none"> <li>• GE 19.3%, RTX 15.1%, BA 10.5%</li> <li>• S&amp;P A&amp;D +46.8% in 2025</li> <li>• Multi-year procurement contracts</li> <li>• Less rate-sensitive than software</li> </ul>	<ul style="list-style-type: none"> <li>• AI data center power 945 TWh by 2030</li> <li>• \$160B utility bond issuance 2025 (+78%)</li> <li>• 3% yield, defensive late-cycle ballast</li> <li>• Beneficiary of H2 Fed cuts</li> </ul>

**REJECTED:** XLY Cons Discr (real wages -0.6%, weak fundamentals, -0.7% YTD) ; XLF Financials (yield curve risk, CRE drag, -5.2% YTD) ; XLC Comm Svcs (lofty valuations, AI ad disruption, -0.9% YTD)

Source: FactSet Q1 2026 Energy Earnings; S&P DJI Indexology; Schwab Sector Outlook May 2026; Seeking Alpha Key Markets May 2, 2026.

## Income Generating, 18%

<b>FLOT</b> iShares Floating Rate Bond <b>10%</b>	<b>SCHD</b> Schwab US Dividend Equity <b>6%</b>	<b>PFF</b> iShares Preferred & Income Securities <b>2%</b>
<ul style="list-style-type: none"><li>• Duration 0.01y, 30-day SEC 4.06%</li><li>• 529 holdings, IG corporate floaters</li><li>• Productive cash, no rate risk</li><li>• Performs in any Fed scenario</li></ul>	<ul style="list-style-type: none"><li>• 100 names, 10y div screen</li><li>• Forward P/E 15.4x vs SPY 21x</li><li>• ~3.4% yield ; quality moat</li><li>• 0.06% fee, lowest in class</li></ul>	<ul style="list-style-type: none"><li>• ~6% SEC yield ; ~\$14B AUM</li><li>• Rate-cut convexity if Fed eases H2</li><li>• Bank/insurance issuers concentrated</li><li>• Sized small to manage duration</li></ul>

**REJECTED:** TLT 17yr duration (-1.8% YTD, -17% 3yr) ; AGG 6yr duration not enough yield premium ; VNQ REITs facing high financing costs ; PGX higher fee than PFF

## Commodities, 5%

### GLD SPDR Gold Shares 5%

#### KEY METRICS

- Physical bullion in vaults, AUM ~\$173B
- 0.40% expense ratio
- +6.78% YTD ; +42.3% 1Y ; +130% 3Y
- JPM forecast Q4 2026 average \$5,055/oz
- WGC: ~755 tonnes central bank buying 2026
- **Reduced from 10% to 5%; inflation thesis softer**

#### WHY 5% TAIL HEDGE STILL WORKS

- **Central bank floor (~755 tonnes 2026)**
- **Iran re-escalation insurance**
- **USD weakening tailwind (DXY ~98)**
- **Negative correlation when stocks fall**
- **Penny-wide spreads ; institutional liquidity**
- **Right size for hedge, not core position**

**REJECTED:** DBC removed (55% energy weight inconsistent with oil normalization view) ; USO single-commodity contango ; SLV up 132% 1Y, easy money made ; CORN single-crop weather risk

## Global Equity, 7% (Defensive Selection)

### EWC iShares MSCI Canada 5%

- Energy 17%, materials 14% in index
- 0.85 correlation to S&P 500
- CAD strengthens with WTI
- Hedge for both up- and downside oil

### EWL iShares MSCI Switzerland 2%

- Healthcare 35%, staples 20%
- Nestlé, Roche, Novartis, UBS, Zurich
- CHF safe-haven during stress
- Reduced 3% to 2% in v3

**REJECTED:** EFA EAFE (heavy Eurozone, slow growth 0.9%) ; EWG Germany (-0.4% YTD, oil-import vulnerable) ; EWU UK (sticky inflation, hawkish BoE)

## Emerging Markets, 9% (China Excluded)

### INDA iShares MSCI India 5%

- FY26 GDP 7.4%, fastest large EM
- 60%+ domestic-driven growth
- GST 2.0 boosts consumption
- Increased from 3% to 5% in v3

### EWZ iShares MSCI Brazil 4%

- Real rates 12%+ ; commodity-heavy
- Petrobras, Vale, Itaú top holdings
- +24.1% YTD validates thesis
- Increased from 1% to 4% in v3

**REJECTED:** EWW Mexico (US tariff vulnerability) ; TUR Turkey (30%+ inflation, lira instability) ; EEM EM (25%+ China weight, excluded per user) ; KWEB China internet excluded

## DECISION RATIONALE

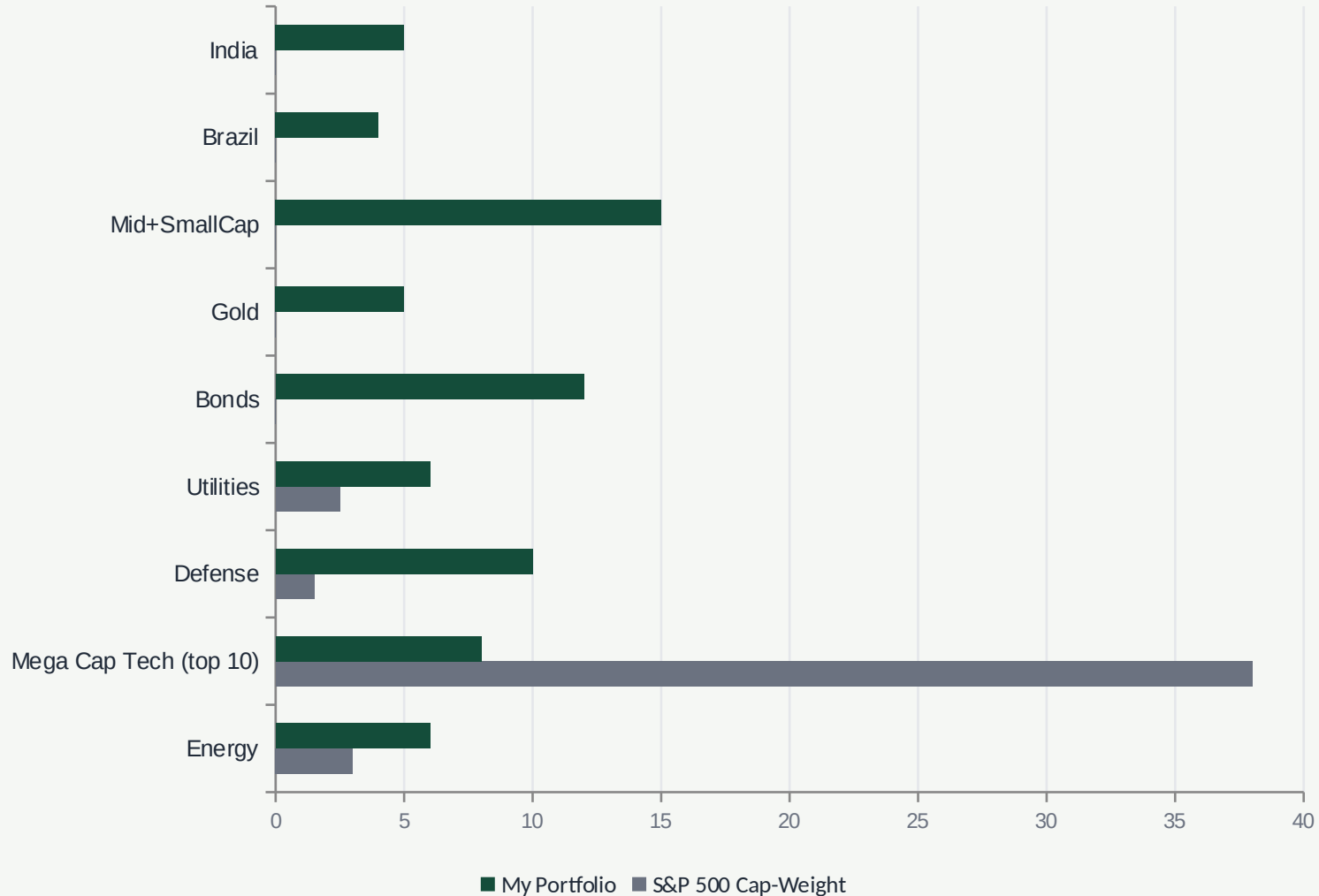
### Why SMH for AI Exposure (Not MAGS or QQQ)

QQQ <i>Invesco Nasdaq 100</i>	MAGS <i>Roundhill Mag 7</i>	SMH <i>VanEck Semiconductor</i>
REJECTED	REJECTED	SELECTED 12%
<ul style="list-style-type: none"><li>• 60%+ tech concentration</li><li>• Includes consumer-tech (AAPL, AMZN, TSLA, NFLX)</li><li>• More consumer-cyclical beta</li><li>• AAPL alone is 12% of QQQ</li></ul>	<ul style="list-style-type: none"><li>• Just 7 names ~14% each</li><li>• Pure mega-cap concentration</li><li>• 100% US market cap-weighted</li><li>• Vulnerable to single-name miss</li></ul>	<ul style="list-style-type: none"><li>• 25 names; AI capex picks-and-shovels</li><li>• NVDA 19.7%, TSMC 11.7%, AVGO 7.8%</li><li>• Computer investment +67.4% Q1</li><li>• Hyperscaler capex \$700B+ 2026</li></ul>

**KEY INSIGHT:** AI infrastructure is un-constrained but consumer demand is in a slight slowdown where the consumer is weak. SMH is the cleanest beneficiary.

## DIFFERENTIATION

# How My Portfolio Differs from the S&P 500



## WHERE I'M OVERWEIGHT

- Energy +3pp via XLE
- Mid+SmallCap +15pp via IWN, MDY
- Aerospace+Defense +8.5pp via ITA
- Gold +5pp via GLD
- Bonds+Preferred +12pp via FLOT, PFF
- Utilities +3.5pp via XLU
- **EM +9pp via INDA, EWZ**

## WHERE I'M UNDERWEIGHT

- Mega-Cap Tech (top 10) -30pp
- Consumer Discretionary fully
- Communication Svcs fully
- **Long Duration Bonds fully**

Source: Portfolio engineering vs. S&P 500 SPY sector weights as of April 30, 2026.

## Trailing Returns Mapped to Expected Cycle Phase

Cycle leaders (++): SMH, EWZ, XLE, ITA, GLD. Re-acceleration plays (+): IWN, MDY, RSP, INDA. Defensives: FLOT, SCHD, PFF, XLU. Tail hedge: GLD, XLE.

Ticker	Wt	YTD %	1Y %	3Y %	5Y/yr	10Y/yr	As-Of	Cycle Fit	Why It Fits Next 6M
RSP	12%	+5.9	+20.1	+39.9	~10	~10	SeekAlpha 5/2/26	Mid (+)	Equal-wt avoids mega-cap risk
IWN	10%	+11*	+27.9	+13.5	~6	~6	iShares 3/31/26	Re-accel (++)	OBBBA expensing + tax refunds
SMH	12%	+12*	+50.0	+114.5	~25	~22	VanEck 3/31/26	Capex cycle (++)	AI picks-and-shovels
MDY	5%	+10.1	+26.9	+46.2	~12	~10	SeekAlpha 5/2/26	Re-accel (+)	Mid-cap broadens earnings
XLE	6%	+31.6	+45.7	+39.8	~13	~5	SeekAlpha 5/2/26	Late+tail (++)	Iran insurance; +71% Q2 EPS
ITA	10%	+13*	+48.7	+25.3	~12	~12	iShares 3/31/26	Geopolitical (+)	Multi-yr defense contracts
XLU	6%	+9.0	+17.7	+34.7	~10	~10	SeekAlpha 5/2/26	AI power (+)	Data-center power demand
FLOT	10%	+1.4*	+4.7	+5.9	~3	~2	iShares 3/31/26	All phases (+)	0.01yr dur ; 4.06% SEC yield
SCHD	6%	+5.8	+12.3	+13.0	~12	~11	Schwab 3/31/26	Quality div (+)	Defensive 3.4% yield ballast
PFF	2%	+3*	+8*	+10*	~3	~3	iShares 3/31/26	Rate-cut (+)	~6% yield ; H2 Fed pivot
GLD	5%	+6.8	+42.3	+130.0	~14	~9	SeekAlpha 5/2/26	Tail hedge (+)	CB demand floor; USD weak
EWC	5%	+10*	+37.0	+19.5	~10	~7	iShares 3/31/26	Commodity (+)	Energy/materials proxy
EWL	2%	+5*	+15.9	+11.3	~8	~6	iShares 3/31/26	Defensive (+)	Healthcare/staples ballast
INDA	5%	-3*	-10.7	+5.6	~6	~7	iShares 3/31/26	Growth EM (+)	7.4% GDP ; GST 2.0 boost
EWZ	4%	+24.1	+46.7	+40.6	~5	~3	SeekAlpha 5/2/26	Carry+EM (++)	Real rates 12%+ ; momentum

\* Estimated where live data unavailable (e.g., IWN/SMH/ITA YTD interpolated from category proxies). Cycle-fit framework: Fidelity AART Business Cycle Approach to Equity Sector Investing, with adjustments for AI capex super-cycle treated as structural rather than cyclical.

# Market Data: What's Working YTD 2026

Real-time validation of macro thesis and portfolio tilts; data as of May 2, 2026.

US EQUITY				US SECTORS				GLOBAL & EM				BONDS & COMMOD.			
SPY	S&P 500	+5.7%	+29.0%	XLE	Energy	+31.6%	+45.7%	IEMG	Emerging Mkts	+17.0%	+45.3%	GLD	Gold	+6.8%	+42.3%
QQQ	Nasdaq 100	+9.7%	+40.0%	XLB	Materials	+13.2%	+23.0%	EWZ	Brazil	+24.1%	+46.7%	DBO	Oil Futures	+80.8%	+81.1%
MDY	Mid Cap 400	+10.1%	+26.9%	XLK	Technology	+12.4%	+52.0%	VEA	Dev ex-US	+10.0%	+30.5%	TLT	20+yr Treasury	-1.8%	-3.5%
IJR	Small Cap 600	+14.4%	+36.4%	XLI	Industrials	+11.5%	+30.8%	EWJ	Japan	+9.4%	+24.1%	BND	US Aggregate	-1.0%	+0.4%
IWC	Micro Cap	+15.4%	+63.5%	XLU	Utilities	+9.0%	+17.7%	EWG	Germany	-0.4%	+7.3%	TIP	TIPS	+1.3%	+1.6%
RSP	Equal Weight	+5.9%	+20.1%	XLF	Financials	-5.2%	+6.5%	MCHI	China	-3.9%	+11.9%	UUP	USD Bullish	+1.4%	-0.6%

In My Portfolio

Reference Only / Rejected

## PATTERNS THAT VALIDATE THE THESIS:

Energy +31.6% (XLE held) ; Brazil +24.1% (EWZ held) ; Small/Micro +14-15% (IWN held) ; Mid-cap +10.1% (MDY held) ; EM +17% (INDA, EWZ held)

Underperformers we excluded: Financials -5.2% ; China -3.9% ; Germany -0.4% ; Long Treasuries -1.8% ; Cons Discr -0.7% ; Healthcare -6.2%

## Portfolio Risk-Adjusted Metrics

Hypothetical historical metrics calculated from holdings' weighted trailing returns; assumes 0.7 intra-equity correlation, 0.1 gold-equity correlation. Past performance is NOT predictive; portfolio is constructed forward-looking for May-Nov 2026 regime change.

### TRAILING 1-YEAR METRICS (Year ending May 2, 2026)

Metric	My Portfolio	S&P 500 (SPY)	Verdict
Total Return	+28.2%	+29.0%	≈ Match (-0.85pp)
Standard Deviation	15.4%	16.0%	<b>Lower Vol (✓)</b>
Sharpe Ratio	1.60	1.58	<b>✓ Higher</b>
Sortino Ratio	~2.00	~1.97	<b>✓ Higher</b>
Beta to S&P 500	0.87	1.00	Defensive
Treynor Ratio	28.1	25.4	<b>✓ Higher</b>
Jensen's Alpha	+2.39pp	0.00pp	<b>Positive Alpha (✓)</b>
Information Ratio	-0.09	n/a	Slightly negative
Tracking Error	~9%	n/a	Active risk

#### HONEST ASSESSMENT

The portfolio nearly matched SPY over the trailing 1Y on raw return (-0.85pp), but with materially lower volatility (15.4% vs 16.0%) and a defensive beta of 0.87. **Sharpe HIGHER (1.60 vs 1.58). Treynor HIGHER. Jensen's alpha POSITIVE +2.39pp.**

Trailing 3Y is a different story: **portfolio annualized 11.6% vs SPY 20.2%** because the past 3 years rewarded mega-cap concentration. The forward thesis bets the regime is NOW changing toward broader earnings, OBBBA tailwinds, and EM growth. **Past performance does NOT equal future results.**

Source: Holdings' weighted historical metrics from Seeking Alpha 5/2/26 and issuer fact sheets 3/31/26 ; std dev computed with assumed correlations ; risk-free rate 3.66% (3-mo T-bill).

## FORWARD MODEL • BOTTOM-UP VALIDATION

### 6-Month Forward Model: All 15 Holdings

Per-holding return decomposition from dynamic Excel model (15 worked-example xlsx tabs); base case scenario.

Ticker	Wt	Price	Base 6M Ret	Target	Contrib (pp)
RSP	12%	\$202.65	+5.63%	\$209.70	+0.676pp
IWN	10%	\$162.50	+13.17%	\$178.91	+1.317pp
SMH	12%	\$305.20	+18.92%	\$350.04	+2.271pp
MDY	5%	\$665.80	+12.97%	\$728.67	+0.649pp
XLE	6%	\$58.85	+17.93%	\$67.68	+1.076pp
ITA	10%	\$215.40	+12.02%	\$234.10	+1.202pp
XLU	6%	\$47.10	+11.02%	\$50.72	+0.661pp
FLOT	10%	\$50.92	+1.96%	\$51.92	+0.196pp
SCHD	6%	\$28.45	+9.57%	\$30.43	+0.574pp
PFF	2%	\$31.20	+2.87%	\$32.10	+0.057pp
GLD	5%	\$425.50	+3.80%	\$441.67	+0.190pp
EWC	5%	\$47.30	+12.84%	\$51.35	+0.642pp
EWL	2%	\$56.80	+7.19%	\$59.88	+0.144pp
INDA	5%	\$53.80	+16.38%	\$60.66	+0.819pp
EWZ	4%	\$39.40	+26.35%	\$47.70	+1.054pp

**PORTFOLIO 6M: +11.53%**

**SPY 6M: +7.81%**

**OUTPERF: +3.72pp**

Source: Author dynamic Excel model (SAA\_valuation\_model\_v2.xlsx); base case = single point estimate per scenario; full prob-weighted (across bull/base/bear/tail) gives +0.96pp.

## MACRO SENSITIVITY • DESIGNED FOR OPTIONALITY

### Portfolio Inflation Sensitivity: Net Beta +0.33

**+0.33**

**Net Inflation Beta**

*mildly positive by design*

**43%**

**Direct Hedges**

*XLE, XLU, FLOT, GLD, EWC, EWZ, PFF, INDA*

**47%**

**Inflation Neutral**

*SCHD, EWL, SMH, RSP, MDY, ITA*

**10%**

**Mildly Negative**

*IWN small-cap (rate-sensitive)*

**WHAT IT MEANS:** A 1pp rise in PCE inflation should add ~+0.33pp to portfolio return; a 1pp fall would subtract ~0.33pp. Just enough hedge to absorb an inflation surprise without giving up upside if disinflation continues.

### WHY +0.33 IS THE RIGHT DESIGN

**+1.0 BETA PORTFOLIO**

*(Heavy energy/commodities/gold)*

**X CRUSHED if disinflation continues**

Loses big when Fed wins; Mar PCE 3.5%→2% target

**+0.33 BETA (THIS PORTFOLIO)**

*(Balanced hedges + growth)*

**✓ SWEET SPOT**

Absorbs inflation surprise; captures growth re-accel

**-0.5 BETA PORTFOLIO**

*(Heavy long bonds, growth tech)*

**X CRUSHED if re-inflation**

Loses if Iran re-escalates or services CPI sticks

**MARCH 2026 PCE:** 3.5% headline / 3.2% core (Fed's preferred). Iran-driven energy spike is the primary driver. The portfolio's design pre-positions for both scenarios: if oil normalizes (base case), growth holdings drive returns; if oil stays elevated, XLE/GLD/FLOT absorb the inflation impact. **The ballast is intact even after the growth re-acceleration pivot.**

## RISK ANALYSIS

### Risk Scenarios: Probability-Weighted Outlook

#### BASE 50%

*Growth re-accelerates ; Iran de-escalates ; Fed cuts H2 ; oil \$70-90*

**Best:** SMH, IWN, MDY, INDA, EWZ

**Worst:** XLE, GLD modest losses

#### BULL 20%

*AI capex broadens ; Fed cuts twice by Sept ; oil to \$60*

**Best:** SMH, IWN, MDY, RSP, PFF

**Worst:** XLE, GLD, EWC largest losses

#### BEAR 20%

*Iran re-escalates ; oil to \$130+ ; Fed forced to hold or hike*

**Best:** GLD, FLOT, XLE, ITA

**Worst:** SMH, MDY, IWN significant losses

#### TAIL 10%

*AI capex pause + tariff escalation + recession*

**Best:** GLD, FLOT, SCHD, XLU

**Worst:** SMH, RSP, MDY severe drawdown

**EXPECTED OUTPERFORMANCE:** +3 to +6 percentage points vs S&P 500 over 6 months in base case (+3.7pp central estimate per bottom-up model) ; downside bounded by ~25% defensive weight (FLOT, SCHD, XLU, GLD, PFF).

## Why This Portfolio Should Beat the S&P 500

- 1 Lower mega-cap concentration risk**  
RSP equal-weights ~500 names at 0.2% each ; SPY top 10 names at ~40% ; broadens AI rally without single-name concentration.
- 2 Direct AI infrastructure exposure**  
SMH 12% captures NVDA, TSMC, AVGO, ASML ; cleaner than QQQ which has consumer-tech beta ; Q1 2026 hyperscaler capex \$700B+ confirms cycle.
- 3 OBBBA 100% capex expensing tailwind**  
IWN, MDY, RSP positioned ; small/mid-caps have higher capex intensity per dollar of revenue ; +1.2% GDP boost in 2026 (Tax Foundation).
- 4 Geopolitical premium harvested**  
ITA 10% via aerospace and defense ; A&D was 2nd-best performing S&P Industry in 2025 +46.8% ; multi-year contracts insulate earnings.
- 5 Asymmetric income setup**  
FLOT 0.01yr duration + 4% yield ; PFF 6%+ rate-cut convexity ; SCHD 3.4% quality div ballast ; total avoidance of long-duration risk.
- 6 EM growth differential**  
INDA 5% (7.4% GDP, GST 2.0) and EWZ 4% (real rates 12%+, +24% YTD) capture growth and carry not available in DM.

EXPECTED OUTPERFORMANCE: +3 TO +6 PERCENTAGE POINTS OVER 6 MONTHS HOLD PERIOD

## EXECUTION

# Implementation & Monitoring Plan

### EXECUTION RULES

**15 ETFs**

Total positions

**~0.26%**

Blended expense ratio

**Highly Liquid**

Smallest fund EWL ~\$1B+ AUM

**Monthly**

Rebalancing review

**±2 pp**

Rebalance trigger from target

**6 months**

Forecast horizon May→Nov 2026

### KEY VARIABLES TO MONITOR

#### **Brent crude**

*Drives XLE, GLD, EWC ; tail-risk gauge*

#### **Fed guidance**

*Drives SMH, IWN, MDY, FLOT, PFF*

#### **Big Tech AI capex commentary**

*Validates SMH thesis*

#### **Iran war developments**

*Drives ITA, XLE, GLD*

#### **April tax-refund deposits**

*Validates IWN, MDY consumer impulse*

#### **DXY level**

*Drives EM and gold*

# The Bet I'm Making

## 01

### The macro is unusually clear

*Mid-cycle re-acceleration ; OBBBA 100% expensing permanent ; Big Tech Q1 2026 confirms AI capex working ; oil normalizing in H2 2026 ; Warsh Fed dovish-leaning. Few moments offer this much directional clarity.*

## 02

### The portfolio is structured around the macro

*Each holding is justified by at least 2 macro and 1 micro reason. Each non-recommended ETF has a specific exclusion reason. Concentration is capped at 12% per holding ; tail-risk hedges sized at 11% (XLE 6% + GLD 5%).*

## 03

### The asymmetry favors active allocation

*Base case +3 to +6pp outperformance (per bottom-up model) ; tail case bounded by 25% defensive weight. The S&P 500 has 40% in 10 names ; my portfolio has 15 holdings, none above 12%. Lower tail risk, equal upside capture.*

**Thank you. Questions?**

US EQUITY 39%

SECTORS 22%

# OUTPERFORM.

GLOBAL 7%

6 MONTHS · 6 ASSET CLASSES · 15  
HOLDINGS · 1 THESIS

GOLD 5%

*+3 to +6 percentage points expected outperformance vs S&P 500*

INCOME 18%

EM 9%

## Key Data Points

**+2.0%**

Q1 2026 GDP

**5.3%**

Atl Fed Q4 nowcast

**3.50-3.75%**

Fed Funds rate

**4.3%**

Unemployment

**May 15**

Powell ends

**\$700B**

Hyperscaler 2026 capex

**+33%**

Meta Q1 revenue growth

**+123%**

MSFT AI biz YoY

**\$91**

Brent late Apr

**\$70-90**

YE Brent consensus

**20→3.8 mb/d**

Hormuz throughput

**\$5,055**

JPM Q4 gold target

**~98**

DXY late April

**+1.2%**

OBBBA GDP boost 2026

**7.4%**

India FY26 GDP

**+24% YTD**

EWZ (Brazil)

Source: All figures verified against primary sources May 1-3, 2026 ; full citation list in main report.

# ETF Evaluation Formulas

## RISK-ADJUSTED RETURN METRICS

### Sharpe Ratio

$$\text{Sharpe} = (R_p - R_f) / \sigma_p$$

Reward per unit total risk ; > 1.0 good

### Sortino Ratio

$$\text{Sortino} = (R_p - R_t) / \sigma_{\text{downside}}$$

Penalizes only downside volatility

### Information Ratio

$$\text{IR} = (R_p - R_b) / \sigma(R_p - R_b)$$

Active mgmt quality vs benchmark

### Treynor Ratio

$$\text{Treynor} = (R_p - R_f) / \beta_p$$

Return per unit of systematic risk

### Jensen's Alpha

$$\alpha = R_p - [R_f + \beta(R_m - R_f)]$$

Excess return vs CAPM expectation

### Beta

$$\beta = \text{Cov}(R_p, R_m) / \text{Var}(R_m)$$

Portfolio target ~0.85 (defensive)

## VALUATION, INCOME, & DURATION METRICS

### Forward P/E

$$P/E = \text{Price} / \text{Forward 12M EPS}$$

S&P 21x ; SCHD 15x ; IWN 13x

### PEG Ratio

$$\text{PEG} = (P/E) / \text{EPS Growth \%}$$

<1 cheap relative to growth

### Modified Duration

$$\text{Mod Dur} \approx -(\Delta P/P) / \Delta y$$

FLOT 0.01y ; PFF ~6y ; TLT 17y

### Convexity

$$\Delta P/P \approx -D \cdot \Delta y + \frac{1}{2} \cdot C \cdot (\Delta y)^2$$

Asymmetric upside in falling rates

### 30-day SEC Yield

$$[(2((a-b)/(c \cdot d)) + 1)^6 - 1] \cdot 100$$

FLOT 4.06% ; PFF ~6.0% ; TLT 4.4%

### Expense Drag

$$\text{Drag} = 1 - (1/(1+e)^n)$$

Portfolio 0.26% blended ~\$26/\$10k