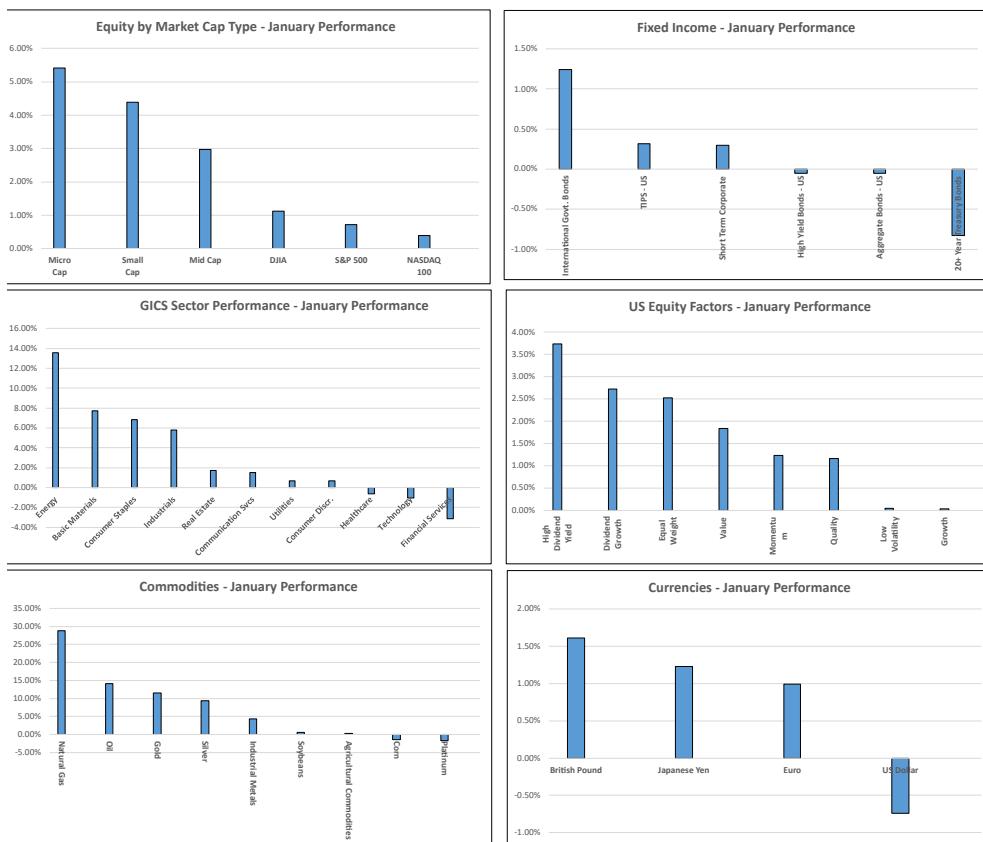


## January 2026 - Market Comments

### Markets in a Glimpse

- **US Small Caps Rotation:** Small Caps outperformed large caps buoyed by attractive valuations and rising expectations of monetary easing by the Federal Reserve. Market volatility intensified amid renewed concerns over tariff measures and persistent geopolitical tensions, contributing to uneven trading conditions.
- **Sentiment Remains Unsettled:** Inflation data and central bank communications helped anchor forecasts for potential rate cuts, but geopolitical and economic uncertainty along with Trump's new Fed chairman, Kevin Warsh, candidate forced investors to maintain a defensive tone.
- **Metals Month-end Panic:** After hitting historic highs on Thursday, copper, gold, and silver prices fell sharply on Friday, as investors took profits amid a strengthening U.S. dollar and evolving monetary policy expectations following Donald Trump's nomination of Kevin Warsh as Federal Reserve Chair, a move that has unsettled markets as traders reconsider the future trajectory of interest rates.
- **Oil Holding Up:** Oil prices rallied at points during January, reaching multi-month highs as supply-side concerns and geopolitical narratives supported crude. However, inventory builds and shifts in geopolitical tensions capped upside.
- **Crypto Markets Resilience:** Major cryptocurrencies such as Bitcoin climbed toward key resistance levels, reflecting renewed interest and selective inflows as regulatory discussions and macro sentiment evolved. While not uniformly outperforming equities, digital assets contributed to the risk asset narrative and demonstrated resilience.



## January 2026 - Market Comments

### In-Depth Market Review

- **Small Cap Rotation and the Return of International Migration:** In January, smaller U.S. stocks began gaining broader investor interest after a long period of large-cap leadership—particularly massive tech names. Indicators show that indexes tracking small caps, like the Russell 2000, reached new record levels late in the month, reflecting growing participation from this group of stocks. This rotation was driven in part by investors seeking value and broader earnings growth outside mega-cap tech, as leadership began to extend into industrials, healthcare, and smaller-company segments. However, some flow data show that not all small-cap funds are seeing net inflows: while performance has improved, certain passive small-cap products have experienced outflows, indicating that the rotation is nuanced and still in an early stage. Moreover, January also saw continued capital movement out of U.S. equity funds and into international shares. Data from fund flows show notable outflows from U.S. equity funds, while international developed and emerging market stocks attracted strong inflows. This dynamic is sometimes referred to in market commentary as a “Sell America” trade, where investors reduce exposure to U.S. assets in favour of non-U.S. opportunities to spread risk and capture growth in international markets.

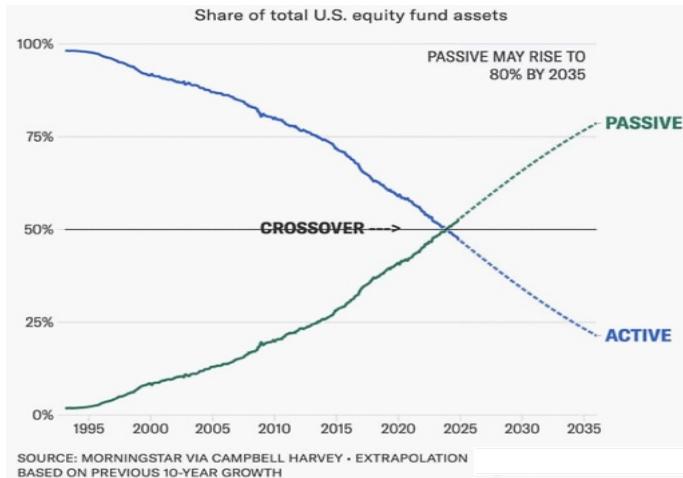
#### International (EFA) and US Small Caps (IWM) Outperforming US Large Caps (SPY, QQQ)



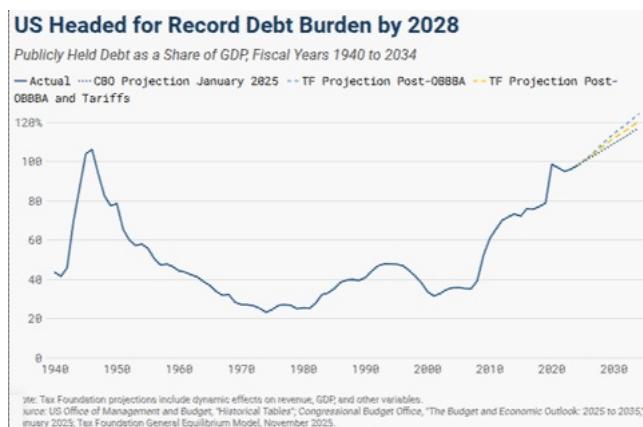
- **Passive Surpassed Active in 2025:** Passive, capitalization-weighted index funds now command a greater share of investor capital than active management. This shift has materially altered market dynamics. Inflows into passive strategies cause otherwise unrelated stocks to move in tandem, weakening diversification and potentially elevating systemic risk. Because index weights are determined by market prices, new capital is mechanically allocated toward stocks that have already appreciated and away from those that are undervalued, reinforcing momentum-driven price distortions rather than correcting them. Indexation is therefore not economically neutral. It operates as an implicit momentum strategy, systematically amplifying the dominance of the largest constituents irrespective of valuation or the resilience of future cash flows. As long as passive flows persist, the relative outperformance of the index's largest holdings can extend well beyond what fundamentals alone would justify. While the timing of any reversal is inherently uncertain, history suggests that prolonged periods of capital misallocation driven by mechanical rules tend to unwind

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abruptly and with adverse consequences. In theory, active managers can help correct price inefficiencies. In practice, the growing dominance of passive investing creates a self-reinforcing feedback loop: passive inflows sustain price trends, active managers struggle to outperform, and capital continues to migrate toward passive strategies.



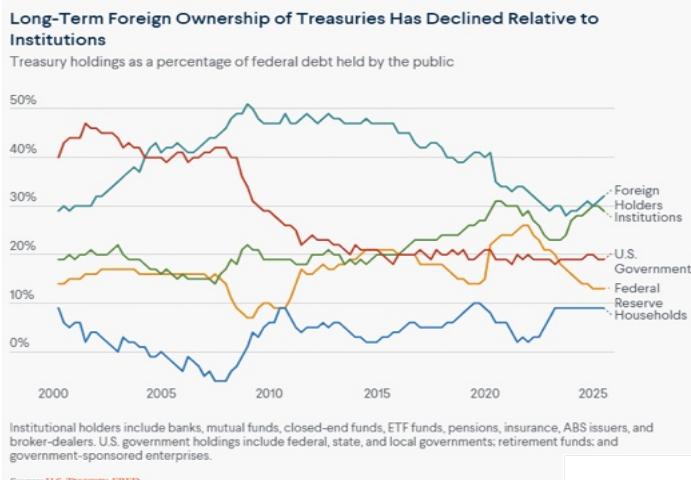
- **Unsettling US Debt Burden Projections:** Unsettling U.S. Debt Projections Persist: While the Congressional Budget Office (CBO) estimates that tariffs could reduce U.S. budget deficits by around \$3 trillion through 2035, these projections rely on uncertain assumptions. The Supreme Court may invalidate tariffs imposed under the International Emergency Economic Powers Act (IEEPA), potentially slashing tariff revenue by half, according to Yale Budget Lab. Meanwhile, the One Big Beautiful Bill (OBBA) is projected to add \$3.4 trillion to the deficit over the next decade, potentially cancelling out gains from tariff revenues. Compounding concerns, the Tax Foundation forecasts public debt to GDP reaching record highs. The administration has signaled it may use other trade laws to compensate for lost tariff revenue, but this adds policy uncertainty. Treasury markets face growing volatility as investors struggle to gauge future bond supply. Adding to the fiscal burden, the administration's evolving global strategy could bring another \$500 billion annually in defense spending, further straining U.S. debt outlooks.



- **U.S. Debt Worries Drive International Investors to the Sidelines:** According to J.P. Morgan, citing Federal Reserve data, U.S. banks, the Fed, and foreign investors now hold about half of

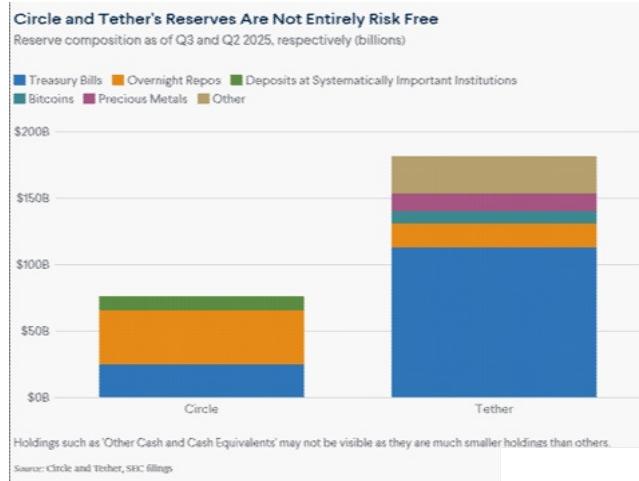
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the Treasury market, down from an average of 66% pre-pandemic. Treasury demand is expected to get a modest lift in 2026 as the Fed ends its quantitative tightening program and returns as a net buyer, mainly through Treasury bill purchases to maintain adequate reserves. Bank demand may also rise, depending on deposit growth and potential regulatory easing, such as changes to leverage ratio rules. The most trade-sensitive demand source, foreign investors, who currently hold just over 30%, faces more uncertainty. Their appetite weakened notably after the April “Liberation Day” tariffs, which triggered broad selling across Treasuries, equities, and the U.S. dollar. This behaviour might continue if tariffs come back to the conversation on the back of the Greenland’s negotiations between the US and the EU.



- **USD Depreciation and Stablecoins:** Historically, the currency composition of central bank reserves has closely reflected trade relationships. The prominence of dollar-denominated reserves today mirrors the United States' role as a key global trading partner, supported by a large consumer base and relatively strong economic growth. A shift toward more protectionist U.S. trade policies could encourage trading partners to diversify away from the United States, potentially prompting gradual reserve reallocation and a marginal decline in foreign demand for U.S. Treasuries. In response, the U.S. Treasury Department appears to be exploring alternative sources of demand, including U.S. dollar stablecoins. Because stablecoins require full backing by high-quality liquid assets - such as cash and short-term Treasuries - their broader adoption could generate incremental demand for Treasury bills. However, stablecoins also introduce new risks to the Treasury market. Although issuers are required to maintain one-to-one reserve backing, these reserves are not risk-free. As illustrated in the plot below, major issuers such as Circle and Tether hold substantial money-market instruments, including overnight reverse repurchase agreements, which carry liquidity and settlement risk. In a stress scenario, rapid redemptions could force asset sales and push short-term yields higher. In addition, Tether's exposure to volatile assets such as Bitcoin and precious metals could place pressure on its dollar peg during periods of market turmoil.

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- Why Inflation Feels Higher Than the Numbers Suggest:** After new tariffs were introduced, inflation—measured by indexes like the CPI—rose less than many expected. Earlier letters explained part of this: companies used up pre-tariff inventory and took advantage of trade rules that lowered the actual impact of tariffs. But by the end of last year, two other trends played a bigger role: product replacement and shrinkflation. Product replacement happens when retailers swap out higher-cost items for cheaper alternatives, such as switching to a domestic brand instead of raising the price of an imported one. Since the original item disappears, its price hike isn't fully captured in inflation data. Shrinkflation is when companies keep prices the same but reduce how much you get—like selling a smaller bag for the same price. This makes it look like prices haven't changed, even though consumers are paying more per unit. Recent analysis by Bai, Jaccard, and Stumpner (2025) suggests that because of these tactics, headline inflation figures may underestimate the real cost increases households are facing as displayed in the table below of the previous authors - highlighting results from regressions of unit prices on a set of price, quantity, and weight-related factors - since coefficients on price-related factors are large and statistically significant, whereas coefficients associated with quantity and weight are negative at the item level. In layman terms, the average consumer is getting less bang for their buck, which explains why consumer sentiment is still at one of the all-time lowest levels.

Table: Category-Level Pass-through and Compositional Effects

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Log Price	Log Price	Log Quantity	Log Quantity	Log Price	Log Price	Log Weight	Log Weight
log(1 + $\tau$ )	0.086*	0.327*	-0.151	-0.259	0.060	-0.108	-0.026	-0.435**
	(0.045)	(0.180)	(0.174)	(0.395)	(0.038)	(0.096)	(0.039)	(0.185)
Balanced	✓		✓		✓		✓	
Unbalanced		✓		✓		✓		✓
Price per weight	✓	✓				✓		
Raw sticker price					✓	✓		
R <sup>2</sup>	1	1	1	1	1	1	1	1
Observations	2,705,306	2,705,306	2,705,306	2,705,306	2,705,306	2,705,306	2,705,306	2,705,306

Notes: All models include fixed effects by country-category-retailer, retailer-month, category-month, and country-month. From left to right, dependent variables are: average price per unit weight, total quantity sold (in units of weight), average sticker price (not per unit weight), and the average weight of barcodes sold. The unit value in columns (1) and (2) is a weighted average of per-unit-weight prices, with weights being weight-adjusted quantities. Columns (3) and (4) is a simple sum of weight-adjusted quantities. Columns (5)-(8) are calculated according to the exact decomposition described earlier. Columns (1), (3), (5), and (7) construct variables using the balanced panel of continuing barcodes, while Columns (2), (4), (6), and (8) use the raw unbalanced panel to construct averages. Standard errors are clustered two-way at the category-country and month level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

## January 2026 - Market Comments

### MG's Message to Investors

- January opened with signs of shifting momentum, as the strong risk-on tone from late 2025 gave way to greater market volatility and more defensive positioning. While global equities initially extended gains - helped by optimism around soft landings and policy support - U.S. markets experienced notable swings, including a sharp mid-month selloff linked to geopolitical tensions and renewed trade concerns. Large-cap tech stocks remained under pressure from valuation and rotation effects towards small caps, while European and Asian markets outperformed, buoyed by improving economic indicators and continued sector shifts into industrials, healthcare, and value-oriented names. Defensive sectors held firm, while technology delivered mixed returns amid earnings scrutiny.
- The tone in January reflected rising investor caution around macroeconomic risks and policy uncertainty. While expectations for Fed rate cuts remained broadly intact, recent central bank comments and data surprises led to recalibrated timelines, putting pressure on long-duration bonds and rate-sensitive sectors. High-yield credit held steady, supported by risk appetite and liquidity conditions. Meanwhile, the U.S. dollar weakened, and gold and silver rallied to new highs, underscoring a growing tilt toward safe havens. Overall, January marked a transitional phase, where optimism was increasingly tempered by concerns over valuations, policy clarity, and global economic resilience moving into 2026.
- As February starts, MG highlights the following tactical views for the short term:
  - **Equities:** The model maintains an underweight stance on equities overall, except for U.S. Large Caps, particularly Growth-style stocks. This points to a potential reversal of the recent rotation trade, favoring domestic Large Caps heading into early February.
  - **Fixed Income:** Positioning has shifted from overweight to neutral, with a tilt toward higher credit quality—favoring low-duration sovereign bonds over corporate debt, especially high-yield. The model also prefers inflation-linked securities, indicating concern that markets may be underestimating inflation risks.
  - **Alternatives:** Risk exposure has moved from overweight to underweight across the board. The model maintains a bearish view on oil, has taken profits on gold, and shows a preference for IPO-related exposure as a hedge against underweight equity positions.
  - **Outlook and Strategy:** These positioning shifts are tactical in nature and will be reassessed as incoming economic data, policy developments, and market dynamics evolve.
- MG reminds its investors about the importance of disciplined risk management, reaffirming the necessity of adopting a cautious, data-driven methodology focused on achieving long-term performance objectives. In this way, MG remains steadfast in its commitment to diligently monitor financial markets and actively adjust risk exposures in alignment with shifting market dynamics. The primary recommendation emphasises the preservation of a fully diversified portfolio, ensuring its structural integrity by refraining from imprudent exposure to risks or opportunities that may appear excessively favourable or unsustainable.

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### MG Investment Solutions Taxonomy

- **MG ETF Asset Allocation Portfolios:** Multi-asset class diversified mandates employing a quantitative asset allocation framework that dynamically adjusts portfolio exposures in response to evolving market conditions and the distinct risk profile of each mandate, with the objective of effectively navigating the prevailing environment of uncertainty.
- **MG ETF High Income Portfolio:** A diversified ETF portfolio designed as an alternative investment vehicle for investors seeking short-duration, highly liquid exposure with the objective of generating monthly income. The strategy targets a mid-single digit yield and is recommended for investors with a minimum investment horizon of two years.
- **MG Opp Portfolio:** An equity portfolio managed through a quantamental investment process, selecting U.S. stocks with a higher likelihood of outperformance over the medium to long term. The portfolio maintains a strategic bias toward large-cap growth companies.
- **MG Opp Dividend Portfolio:** An equity portfolio constructed through a quantamental investment process, focused on the selection of U.S. stocks with a dividend yield significantly higher than the broad U.S. equity market. The portfolio emphasizes companies with high-quality balance sheet, aiming to enhance the likelihood of outperformance over the long term, with a strategic bias toward mid-cap value and quality-oriented stocks.
- **MG Emerging Technologies (MGET):** A Tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by allocating capital to high-growth transformative thematic opportunities such as Artificial Intelligence, Cybersecurity, Robotics, Biotechnology, Blockchain, and Quantum Computing.
- **MG Blockchain (MGBLOCK):** A tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by offering investors diversified access to the cryptocurrency sector. The strategy employs a combination of direct exposure to cryptocurrency-linked, fiat currency-denominated ETFs (focused on Bitcoin and Ether) alongside indirect exposure to publicly traded companies demonstrating high sensitivity to the blockchain ecosystem.

MG Solution	Short	Asset Class	Description
<b>MG Asset Allocation ETF</b>	<i>MGAA</i>	Multi-Asset Class	Multi-asset class diversified mandates employing a quantitative asset allocation framework that dynamically adjusts portfolio exposures in response to evolving market conditions and the distinct risk profile of each mandate, with the objective of effectively navigating the prevailing environment of uncertainty.
<b>MG High Income ETF</b>	<i>MGHI</i>	Fixed Income	A diversified ETF portfolio designed as an alternative investment vehicle for investors seeking short-duration, highly liquid exposure with the objective of generating monthly income. The strategy targets a mid-single digit yield and is recommended for investors with a minimum investment horizon of two years
<b>MG Opp</b>	<i>MGOP</i>	Equity	An equity portfolio managed through a quantamental investment process, selecting U.S. stocks with a higher likelihood of outperformance over the medium to long term. The portfolio maintains a strategic bias toward large-cap growth companies
<b>MG Opp Dividend</b>	<i>MGOD</i>	Equity	An equity portfolio constructed through a quantamental investment process, focused on the selection of U.S. stocks that prioritize a dividend yield approximately three to four times higher than that of the broad U.S. equity market. The portfolio emphasizes companies with high-quality balance sheet, aiming to enhance the likelihood of outperformance over the medium to long term, with a strategic bias toward mid-cap value and quality-oriented stocks.
<b>MG Emerging Tech</b>	<i>MGET</i>	Equity	A Tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by allocating capital to high-growth transformative thematic opportunities such as Artificial Intelligence, Cybersecurity, Robotics, Biotechnology, Blockchain, and Quantum Computing.
<b>MG Blockchain</b>	<i>MGBLOCK</i>	Equity & Crypto ETF	A tax-efficient, annually rebalanced portfolio designed to target double-digit annualized returns over the long term by offering investors diversified access to the cryptocurrency sector. The strategy employs a combination of direct exposure to cryptocurrency-linked, fiat currency-denominated ETFs (focused on Bitcoin and Ether) alongside indirect exposure to publicly traded companies demonstrating high sensitivity to the blockchain ecosystem.