



# Investment Views

JUNE 2026

## To A Man With A Hammer, Everything Looks Like A Nail.

Regular readers of Investment Views will know that in our view, the most compelling long-term risk-adjusted returns arise from a small number of structural megatrends. These forces drive global economies and asset markets forward throughout the cyclical ups and downs.

We manage our top-down asset allocation through the lens of just two such megatrends, both of which have been foundational pillars of our investment framework for several years: the Technological Revolution and the Debt Supercycle.

### The Two Faces of Compounding Disruption

It has been near-impossible to miss the current Technology Revolution. The market euphoria surrounding the highly anticipated IPOs of SpaceX, Anthropic, and OpenAI serves as a case in point. Some of this valuation exuberance will prove justified; much of it will not. Frankly, identifying the ultimate winners at this stage is a guessing game.

Aside from capturing these newcomers passively via their fast-tracked entry into global benchmark indices, we remain mindful of the old market adage that "IPO" often means "It's Probably Overpriced." Sellers invariably possess better information than buyers. In today's buoyant liquidity environment, insiders can often float companies without many of the traditional governance restrictions, long-term lockups, or concessions on corporate control.

A far less glamorous topic for dinner party conversation—but one with equally profound implications for your family's generational wealth—is our second megatrend: "The Debt Supercycle." One of the few macroeconomic frameworks that has repeatedly played out in practice, over the last fifteen years it has effectively mutated into the global financial system's Standard Operating Procedure.

### Anatomy of the Supercycle

The mechanics of the Debt Supercycle rely on the economic truths that one person's spending is another person's income, and borrowing allows a society to spend more than it currently produces. The cycle goes something like this:

#### Goldilocks Phase:

Growth feels strong; rates fall; asset prices soar.

Debt grows faster than income, yet the economic backdrop feels exceptional. Central banks routinely suppress interest rates, sending long-duration assets—private equity, luxury real estate, and global equities—skyrocketing. Because balance sheets inflate on paper, lenders willingly extend ever-more credit.

#### The Peak Phase:

Debt service consumes income, productive spending halts.

The mountain of global leverage becomes so big that even at low nominal rates, the absolute cost of servicing the interest begins to consume a destructive share of national income—capital that is withdrawn from productive, wealth-generating enterprise.

#### The Deleveraging:

Standard rate cuts fail; system requires a structural reset.

Disposable income drops, aggregate demand contracts, and the debt bubble finally bursts. Standard monetary policy (cutting interest rates) ceases to work because the system is hitting the zero-lower bound or facing structural insolvency. The complete reset is required, via a painful mix of austerity, default, wealth redistribution, and overt money printing (reflation).

### The "Miracle Solution" Illusion

In the 2008 Global Financial Crisis, central banks intervened to defer such a deleveraging. Key players from major nations coordinated a joint collapse in interest rates to historical lows and initiated the era of multi-trillion-dollar Quantitative Easing (QE).

Thankfully it worked, stabilising a system that was genuinely on the brink. However, because it unblocked the financial plumbing when it was in genuine danger of a complete freeze, variations of this emergency playbook became the institutional "go-to" response whenever political structures decided they lacked the stomach for economic pain. To a man with a hammer...

### The MOVE Index: Today's Leading Indicator

A stable, liquid government bond market is the foundational infrastructure upon which all other asset classes are priced. If Treasury plumbing cracks, private credit markets freeze, collateral terms tighten, and the real economy stalls. Just as the VIX index acts as the "fear gauge" for equity markets, the MOVE (Merrill Option Volatility Estimate) Index serves as the definitive fear gauge for debt markets, measuring implied volatility in US Treasury options.

In today's highly interconnected and leveraged global economy a sharp, un-ordered spike in the MOVE index terrifies central bank governors far more than a double-digit correction in equity indices. It acts as the direct leading indicator for state intervention.

### Case Studies: The Playbook in Action

This is not just theory. Over the past several years, policymakers have actively run this exact playbook whenever bond market volatility threatened to trigger a cascade of systemic failures:

#### 1. March 2020 (The Pandemic Liquidity Freeze)

The global treasury market experienced a severe liquidity mismatch as investors indiscriminately sold bonds for cash. The MOVE index skyrocketed. The Federal Reserve intervened within days, launching un-capped QE to absorb trillions in paper and directly backstop the corporate credit markets.

#### 2. September 2022 (The UK LDI Crisis)

A violent, sudden spike in long-dated UK Gilt yields threatened to trigger a margin-call death spiral across domestic leveraged pension funds. The Bank of England was forced to abruptly pause its quantitative tightening plans, intervening overnight as a buyer of last resort to restore orderly market functioning.

#### 3. March 2023 (US Regional Banking Crisis)

The rapid collapse of Silicon Valley Bank exposed deep, underwater hold-to-maturity bond portfolios across the US banking system. The Federal Reserve immediately engineered the Bank Term Funding Program (BTFP), allowing banks to pledge devalued bonds at par value in exchange for immediate cash—paralyzing the panic via an instant injection of liquidity.

#### 4. April 2025 (The "Liberation Day" Tariff Shock)

Following initial tariff warnings, the MOVE index ground upward as fixed-income markets began reflecting policy uncertainty. When the administration formally announced sweeping global tariffs, the traditional safe-haven trade completely fractured. Bond vigilantes aggressively dumped US debt, causing the MOVE index to spike violently alongside surging long-term yields. Within a week, the sheer velocity of the fixed-income revolt forced the White House into a dramatic 90-day pause and walk-back on the tariff schedule to insulate the bond market.

#### 5. March 2026 (The Strait of Hormuz Crisis)

Following military escalations in the Middle East, the MOVE index breached the critical danger threshold of 115 as energy-driven stagflation expectations mounted. Recognizing that the structural leverage of the US bond market simply could not withstand a prolonged spike in yields without major cracks emerging, the administration was forced to pause and de-escalate the friction, demonstrating that fixed-income mathematics now actively dictates foreign policy.

### The Supercycle Catch-22: Systemic Moral Hazard

While these interventions are highly effective at suppressing short-term volatility, they introduce a severe long-term distortion: they prevent the global economy from ever truly deleveraging.

Since institutional investors operate with almost certainty that the state will step in to prevent a systemic collapse, true market discipline is diminishing. Risk is being socialised, while upside returns remain privatised. Instead of purging unproductive debt, each crisis simply pushes the aggregate leverage higher, shifting insolvency risk off private balance sheets and onto sovereign ones. Ultimately, this accelerates the structurally inflationary phase of the supercycle.

As John Plender\* recently highlighted, we may be at the beginning of a profound historical inflection point. As the ratio of US public debt to GDP moves to breach its post-WWII high, the concept of imperial overstretch is becoming an active market risk. The financial reality is alarming:

- US defence-related expenditures and global positioning remain an immense fiscal drain (the Iran conflict, for example, is costing \$2bn per day).
- The requested US defence budget for 2027 is an unprecedented \$1.5 trillion, twice that of only six years ago.
- The Treasury's net interest bill has doubled, rising from 1.5% of GDP in 2021 to over 3% today, requiring more than \$1 trillion per annum simply to service existing debt obligations.

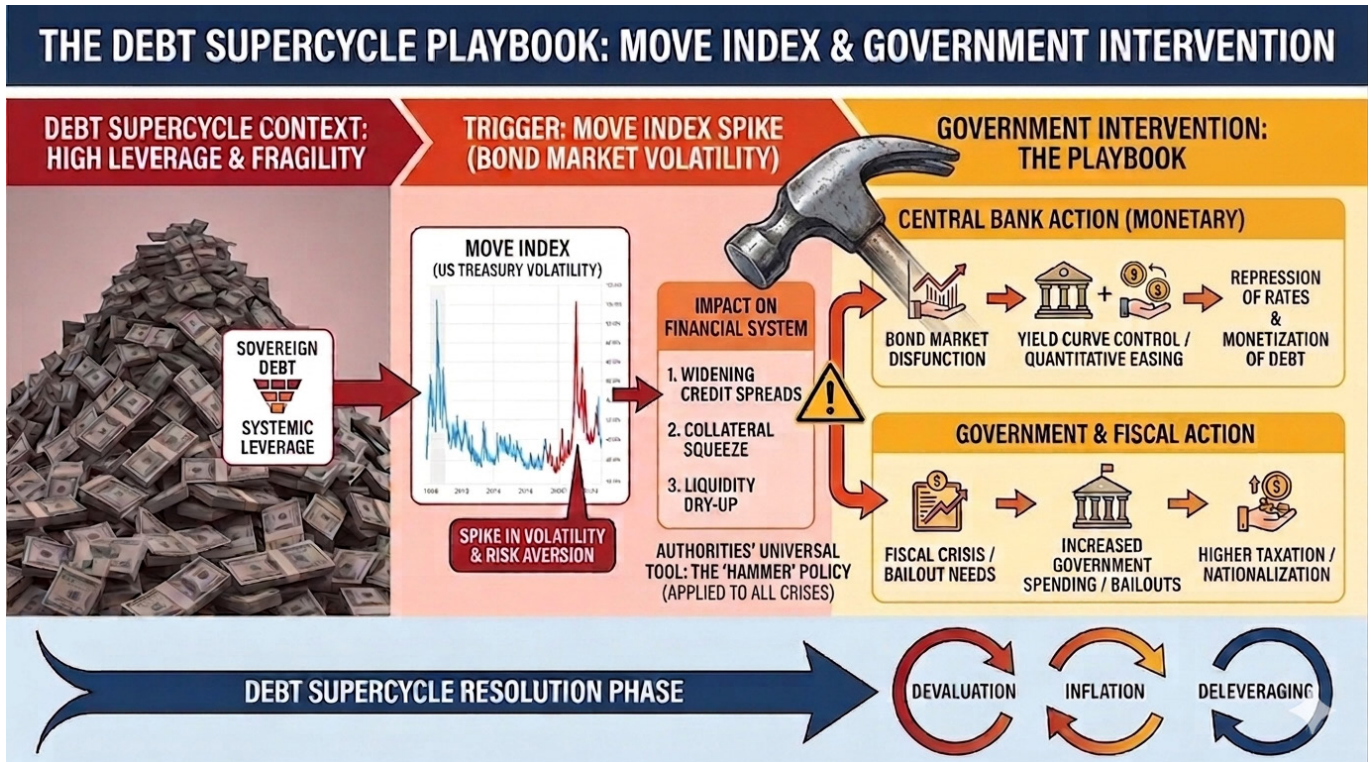
### The Strategic Endgame

In an environment characterized by both higher inflation and nervousness surrounding the trajectory of global sovereign debt loads, long-term real yields are rising. This places the system under significant duress.

Governments and their electorates must eventually choose between draconian spending cuts, overt debt restructuring, or sustained inflation. For a highly financialized, asset-dependent economy with an aging demographic profile, such as the US, the political path of least resistance will invariably be monetary degradation via inflation.

Not that we expect a sensational headline announcing sovereign bankruptcy. No, the endgame of the Debt Supercycle is a slow, structural devaluation of purchasing power that takes place over decades. But we note that the MIT economist Rudiger Dornbusch famously observed: "In economics, things take longer to happen than you think they will, and they happen faster than you thought they could." Or, as the character in Ernest Hemingway's *The Sun Also Rises* commented when asked how he went bankrupt: "Two ways. Gradually, and then suddenly."

On the surface, the global financial architecture appears liquid and stable, while underlying structural deficits continue to quietly erode the foundations. Until we change course or the final structural reset occurs - and no-one knows when either of those will be - keep a close eye on the MOVE index. It remains the best tactical compass for navigating what comes next.



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