

## Manole Capital 2<sup>nd</sup> Quarter Investor Newsletter:

*"Data isn't necessarily information, and information isn't necessarily knowledge.  
Real understanding is drawing an inference."  
— Howard Marks, Oaktree Capital Management*

### Key Takeaways:

- The Fed may be approaching a significant philosophical shift. A Warsh-led Fed could place greater emphasis on monetary conditions, balance sheet management, and market-based price discovery.
- In periods of uncertainty, our portfolio tends to perform relatively well. Market volatility benefits exchange operators by increasing demand for risk management, price discovery, and trading activity.
- Prediction markets are evolving into information networks. Increasing participation from exchanges, brokers and institutional investors suggests these platforms may become an important component of financial infrastructure.
- Stablecoins are slowly but surely moving into the financial mainstream. Regulatory clarity, institutional adoption and growing real-world use cases are accelerating their emergence as a new layer of financial infrastructure.
- The IPO window may be reopening. The next wave of private company offerings could create significant opportunities, but history suggests that valuation discipline remains critical to long-term returns.

### Introduction

In volatile market environments, our strategy has historically performed well. We obviously did not anticipate that the US would strike the Iranian regime, triggering heightened instability in the Middle East. However, our portfolio positioning has proven to be well aligned for this type of environment. When uncertainty rises, investors, corporations, and institutions seek ways to manage risk, hedge exposures, and discover prices. Those activities tend to benefit several of our exchanges. These companies do not rely on predicting market direction. Instead, they benefit from increased trading activity, higher volumes, and greater demand for risk management tools. Whether the catalyst is geopolitical tension, tariff uncertainty, inflation concerns, or shifting monetary policy, periods of elevated volatility often create stronger operating environments for market infrastructure providers.

While headlines have been dominated by global conflicts and macroeconomic concerns, we remain focused on the long-term trends reshaping financial infrastructure. Stablecoins are moving closer to the mainstream financial system, and prediction markets are emerging as powerful information networks. These developments may seem unrelated on the surface, but they all point to the same conclusion. Financial services are becoming faster, more digital, and increasingly embedded into everyday experiences.

### **Market Observations, Geopolitics, Energy & Volatility:**

The second quarter once again reminded investors that financial markets rarely operate in isolation. Geopolitical events often create ripple effects far beyond the regions where they originate, with energy markets frequently serving as the primary transmission mechanism. The recent conflict involving Iran and uncertainty surrounding the Strait of Hormuz highlighted how quickly geopolitical developments can influence commodity prices, inflation expectations, and broader financial markets.

Approximately 20% of global oil supply moves through the Strait of Hormuz, making even temporary disruptions meaningful for economic activity and market sentiment. Initial headlines created meaningful volatility across energy markets and generated renewed concerns regarding inflation. However, higher energy prices alone do not necessarily create sustained inflation. Financial markets and global supply chains frequently adapt quicker than initial headlines imply. As uncertainty surrounding the Strait of Hormuz increased, alternative transportation and supply mechanisms began emerging. Saudi Arabia's East-West pipeline has experienced significantly higher utilization, US energy production and exports have continued increasing, and previously constrained producers (including Venezuela), have also begun supplying additional barrels to the market. Supply disruptions often create temporary dislocations, but markets frequently respond by identifying alternative sources and routes.

Markets also frequently adapt faster than prevailing sentiment. During the quarter, signs of de-escalation and temporary cease-fire discussions quickly shifted investor expectations and reinforced how rapidly market psychology can change. The speed at which markets discount both good and bad news often serves as a reminder that investors continuously price future expectations rather than current headlines. More importantly for investors, periods of uncertainty frequently create very different outcomes across business models. While volatility can pressure many industries, exchanges and market infrastructure providers often benefit from heightened activity and increased hedging needs. Year-to-date, changing expectations surrounding energy prices, inflation and interest rate expectations have resulted in significant volumes in the futures, options, and derivatives markets. Several of our exchange and market makers have benefited from elevated trading activity, as investors and companies need to reposition their portfolios and adjust expectations around various economic outcomes.

This dynamic also aligns closely with an investment philosophy we have discussed for years. Rather than attempting to predict geopolitical outcomes, commodity prices, or short-term market reactions, we have generally preferred "picks-and-shovels" businesses that facilitate activity regardless of the eventual outcome.

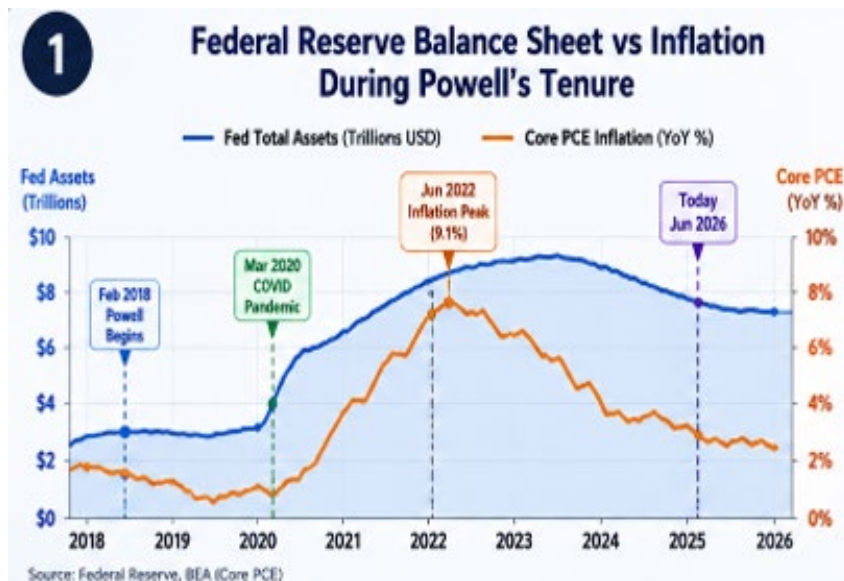
Importantly, despite geopolitical uncertainty, elevated energy prices, shifting interest rate expectations and persistent inflation concerns, equity markets have remained notably resilient. The S&P 500 is currently up approximately 9% year-to-date, demonstrating once again that markets often move ahead of prevailing sentiment. Investors have long described markets as having the ability to "climb a wall of worry," advancing despite the constant presence of risks and uncertainties. History repeatedly suggests that markets rarely wait for perfect clarity. More often, they begin discounting improving conditions long before the underlying headlines become more comfortable.

### Powell's Fed Tenure:

Back in October of 2017, we [published a research note](#) predicting that Jerome Powell would become the next Fed Chairman. He assumed leadership of the Fed on February 5, 2018, and his tenure will likely be remembered as one of the most challenging periods in modern central banking history. During his time as Chairman, the Fed navigated a global pandemic, the shutdown of major economies, and inflation rose to a four decade high. Despite these challenges, financial asset prices performed exceptionally well. Including reinvested dividends, the S&P 500 increased by more than 3x during Powell's tenure.

The response to COVID also fundamentally altered the role and size of the Fed. As policymakers attempted to stabilize markets and support the economy, unprecedented liquidity measures and quantitative easing expanded the Fed's balance sheet to more than double its size from when Powell assumed office.

In February 2021, Powell suggested that substantial growth in money supply did not necessarily carry meaningful implications for the economic outlook, and noted that monetarism was something "we have to unlearn."



Monetarists have long argued that inflation ultimately reflects broader monetary conditions and excess liquidity, rather than isolated price shocks. Current money supply growth remains approximately +5.8% year over year, substantially below the more than +30% growth rates experienced during the COVID period.

While inflation has fallen significantly from its pandemic peak, it has remained above the Fed's stated 2% target for more than five years. The final stage of disinflation, that "last mile," has proven to be the most difficult. Inflation, declining from 9% toward 3% was achievable, but moving from 3% back towards 2% has been far more stubborn. The Fed's preferred inflation gauge, Core Personal Consumption Expenditures (Core PCE), which excludes food and energy, recently increased +3.2% year over year and remains meaningfully above target.

US Treasury markets remain among the deepest, most liquid, and systemically important financial markets in the world. Investors are not likely to wake up tomorrow to a sudden US debt crisis or Treasury market disruption. The larger concern may be less about an immediate event and more about a gradual shift in perception. This might be why long-term interest rates continue to move higher. The 10-year Treasury is now at 4.6%, and the 30-year Treasury recently reached 5.1%, its highest level since 2007.

Bond markets increasingly appear to be demanding greater compensation for owning longer duration debt as concerns surrounding persistent inflation, rising fiscal deficits and policy uncertainty continue building. Financial markets can often absorb large deficits and rising debt burdens over extended periods of time. However,

investors may become less comfortable when concerns begin shifting from the amount of debt itself toward confidence in the predictability and discipline of future policy decisions. Markets frequently react less to isolated events and more to the cumulative effect of changing expectations. Rather than a single catalyst, investors may instead be responding to a steady accumulation of evidence that fiscal and monetary outcomes are becoming more difficult to forecast.

### **The Fed's New Framework:**

Back in September of 2025, we reviewed the Fed in our note [“The Fed Is A Soap Opera”](#), and discussed that Kevin Warsh held the 'inside track' to becoming the next Fed Chairman. After successfully identifying the next Fed Chairman, maybe we should have made a prediction, or bet on Kalshi or Polymarket?

The markets may be approaching more than just a change in personnel. We could be witnessing a 180-degree shift in economic philosophy. Fundamentally, Kevin Warsh has long been associated with principles rooted in Milton Friedman's monetarist framework. Warsh has been highly critical of the modern Federal Reserve and has argued that "the Fed is broken." His vision differs materially from Powell's approach and centers on three broad themes: lower interest rates to support economic growth, a smaller Federal Reserve balance sheet, and greater confidence that productivity gains from artificial intelligence can create disinflationary forces similar to those experienced during the internet boom of the 1990s.

Friedman famously argued in 1963 that "inflation is always and everywhere a monetary phenomenon." The central idea is relatively straightforward. Sustained inflation ultimately results from excessive monetary expansion and too much liquidity circulating throughout the economy. This philosophy materially differs from Powell's own comments and beliefs.

Inflationary pressure peaked in the summer of 2022, and disproportionately affected lower income households. Inflation often creates a K-shaped economy, where higher income households benefit from appreciating financial assets, while necessities such as housing, food, and gasoline place increasing pressure on lower income consumers. Gallup's Economic Confidence Index fell to a negative 45 in May, its lowest reading since October 2022. The University of Michigan Consumer Sentiment Index came in at 44.8, a new all-time record low for a survey that has been tracking American consumer attitudes since 1952. Despite these low consumer sentiment indices, the stock market continues to rally, with the Dow and S&P 500 reaching new all-time highs. Clearly, not all US households are equal, and this inflationary environment pressures each differently.

Over the past two decades, the Fed has increasingly relied on communication and forward guidance as policy tools. Markets now attempt to interpret every speech, press conference, and statement for clues regarding future actions. If future Fed leadership embraces a more monetarist framework, policy could place less emphasis on forecasting, and more emphasis on observable economic outcomes. A Warsh-led Fed and framework may also place less emphasis on forward guidance and greater emphasis on allowing markets to interpret economic conditions directly. This could potentially include reduced emphasis on tools such as the Fed's dot plot projections. Additionally, Warsh supporters argue that AI and productivity improvements could create disinflationary forces that ultimately allow lower interest rates without reigniting inflation.

A more monetarist approach would likely place greater emphasis on balance sheet management, in addition to traditional short-term interest rates. Supporters of this approach argue that the Fed's holdings of approximately \$3.6 trillion of Treasury securities and roughly \$2 trillion of agency mortgage-backed securities have expanded the central bank's footprint in financial markets beyond its intended role. While previous cycles relied heavily on adjusting Fed Funds rates, future policy could increasingly focus on the size of the Fed's balance sheet itself. Shrinking excess liquidity within the financial system could slow money growth and potentially help guide inflation back toward the Fed's long-term 2% target. Who knows, maybe the 2% target gets changed to 3%?

While a philosophical shift will occur, implementation will not happen overnight. Monetary policy remains committee driven, and the Fed Chairman controls only one vote on the FOMC. Changes involving the Fed's balance sheet, communication strategy, or policy framework are therefore unlikely to be immediate. Markets often adjust more quickly than institutions themselves. For investors, the implications extend beyond simply whether short term rates move higher or lower. If policy increasingly shifts toward balance sheet management and tighter control over liquidity, asset prices that benefited from abundant capital and ultra-low rates could behave differently than they have over much of the past decade. As an active manager, we would be happy if the next cycle was driven less by cheap money and more by underlying fundamentals.

Markets have spent much of the past decade operating alongside significant central bank intervention. The next chapter for the Fed may ultimately be less about where short-term rates move and more about how much money is allowed to circulate throughout the economy.

### Markets As Information Networks:

One of the more interesting developments occurring beneath the surface involves the continued evolution of prediction markets. Historically, markets existed primarily to transfer risk and facilitate capital formation. As Howard Marks from Oaktree Capital has stated, "Data isn't necessarily information, and information isn't necessarily knowledge." Increasingly, prediction markets are becoming tools for aggregating information and probabilities. Prediction platforms transform opinions into prices by allowing participants to express views on future outcomes. Supporters argue that these markets can often process and synthesize information more efficiently than polls, surveys, or traditional forecasting methods.

In our view, the most important signal may not be the growth of any individual prediction market platform, but rather the increasing participation of established financial institutions and market infrastructure providers. One of our long-term holdings, Intercontinental Exchange (ICE), has made a significant investment into Polymarket; it has branched out from its traditional derivatives, futures, options, and cash equities exchanges, to take a strategic position in the predictive space. This type of investment is typical of ICE, as it likes to be at the forefront of new and adjacent technologies. We believe this validates the predictive markets as an emerging area of financial infrastructure, rather than simply a niche category.

Importantly, we are also seeing participation across several of our other portfolio holdings and market operators. Companies such as CME, Robinhood, Miami Exchange, and Schwab have all benefited directly or indirectly from growing interest in event driven trading, retail engagement and expanding market participation. Historically, exchanges were venues for matching buyers and sellers. With improved technology capabilities, buyers and sellers moved from the open-outcry setting (i.e., the pits), into the digital world. Increasingly,

markets themselves are becoming information networks that aggregate probabilities and convert opinions into prices.

Prediction markets appear no different. Rather than focusing on who wins an individual event or which platform ultimately dominates, we are more interested in the exchanges, data providers, brokers, and financial infrastructure companies that benefit from increased participation, volumes, and activity. The larger opportunity may ultimately be less about betting activity and more about expanding price discovery, data generation and market engagement. Just as search engines originally organized the world's information, future financial platforms may increasingly organize the world's probabilities.

### **Stablecoins Move Toward the Financial Mainstream:**

Stablecoins continue moving beyond the cryptocurrency ecosystem and increasingly toward mainstream financial infrastructure. The narrative surrounding digital assets has shifted from speculation toward utility. Historically, skeptics questioned whether digital currencies would ultimately displace traditional payment systems. As we discussed in our [July 2025 stablecoin research piece](#), we believed the investment opportunity was likely less about replacing existing financial infrastructure and more about expanding it.

Increasingly, the better question may be whether traditional payment systems simply integrate digital assets into their existing infrastructure. Stablecoins may ultimately become another payment rail operating alongside cards, ACH, wires, and digital wallets rather than functioning as a replacement for them. Recent commentary from Visa reinforces that view. Rather than viewing stablecoins as a competitive threat, the company appears to view them as another payment rail that can operate alongside existing systems. Instead of disintermediation, the larger opportunity may involve enabling new forms of payment activity and increased transaction volume.

Stablecoins may also increasingly gain traction in cross-border payments and global commerce, where traditional payment systems can still involve meaningful friction, delays, and cost. Supporters point to near-instant settlement, 24/7 availability and programmable payment functionality as potential advantages. In certain cross-border use cases, transaction costs can range from approximately 0.1% to 0.5% of transaction value, compared with traditional remittance costs that often exceed 6%, potentially creating meaningful efficiencies for payroll, contractor payments, and intercompany fund transfers. Importantly, approximately 99% of fiat-backed stablecoin supply remains tied to the US dollar, reinforcing both the dollar's continued role in global finance and the potential for stablecoins to expand existing financial infrastructure rather than replace it.

Many payment frictions have become accepted simply because they have existed for so long. Multi-day settlement windows, numerous intermediaries and limited payment visibility have historically been treated as unavoidable parts of commerce. New payment rails may not simply improve speed and cost, but may also challenge assumptions about how money should move. Large payment networks have benefited from serving as infrastructure providers rather than choosing winners among payment methods. Whether consumers transact through cards, digital wallets, tokenized assets or stablecoins, companies controlling the network layer may continue capturing economic value.

We increasingly believe stablecoins represent evolution rather than revolution. Financial history repeatedly demonstrates that technology rarely eliminates payment infrastructure altogether. More often, it simply

changes the form factor. Interestingly, even as digital payment adoption continues accelerating, approximately 76% of consumers still carry cash in their wallets and 92% report no intention of abandoning it entirely. Payment history has frequently shown that new rails tend to supplement existing behavior rather than completely replace it. The winners may not necessarily be the digital asset itself, but rather the companies building the rails that allow money to move more efficiently.

Stablecoins have quietly become one of the most important developments in financial services. What began as a niche tool for cryptocurrency traders has evolved into a legitimate payments and settlement network that is increasingly attracting the attention of banks, payment companies, merchants, and regulators. Unlike traditional cryptocurrencies, stablecoins are designed to maintain a stable value, typically by being backed one-for-one with US dollars or short-term Treasury securities. This stability allows them to function as a practical medium of exchange while preserving many of the advantages of blockchain technology, including faster settlement, lower transaction costs, and global accessibility.

Beyond faster payments, stablecoins introduce something entirely new - programmable money. Traditional money can be sent and received, but the rules governing how it moves are handled separately through banks, payment processors, legal agreements, and back-office systems. Stablecoins allow both the value and the instructions governing that value to exist together within software. Payments can be automated, conditional, continuous, or triggered by pre-defined events without requiring manual intervention. As regulatory clarity improves and institutional adoption accelerates, we believe stablecoins are evolving from a cryptocurrency application into a foundational layer of modern financial infrastructure. Much like the internet transformed how information moves around the world, stablecoins have the potential to transform how money moves.

Across these themes, a common thread continues to emerge. As we have discussed for years, our focus remains less on predicting which payment form factor ultimately wins and more on identifying the infrastructure businesses building the rails beneath these trends. Whether consumers transact through cards, digital wallets, or even stablecoins, the most durable opportunities often reside with the companies facilitating those payments rather than the individual payment method itself.

#### IPOs:

One of the more interesting developments in capital markets is not what has already gone public, but what remains private. According to Professor Jay Ritter of the University of Florida (Go Gators!), companies are staying private far longer than they did in previous decades. As a result, some of the world's most valuable businesses remain inaccessible to public market investors.

The largest IPO in history remains Saudi Aramco's 2019 offering, which raised approximately \$29 billion and valued the company at roughly \$1.7 trillion. Today, several private companies are approaching similar levels of significance. SpaceX, OpenAI, and Anthropic have all achieved extraordinary valuations while remaining private. SpaceX alone is reportedly approaching a valuation of \$1.25 trillion despite generating approximately \$19 billion of revenue and losing nearly \$5 billion last year. For perspective, Facebook's 2012 IPO valued the company at approximately \$81 billion, meaning a future SpaceX offering could be more than 15x times larger at the time of its listing.

We have never been a fan of valuing businesses on revenue multiples. Ideally, investors should analyze earnings, cash flow, returns on capital, and other measures of profitability. Unfortunately, many of today's most highly valued private companies generate little or no EBITDA and, in some cases, continue to report substantial losses. As a result, investors are often left relying on revenue multiples when assigning valuations.

We continue to monitor the evolving IPO landscape because it directly impacts several of our investments. Through our private investments (in the Manole Fintech Fund), we own shares of Stripe, which is widely regarded as the largest private FINTECH company in the world. Last year, we received liquidity when Klarna, the largest buy now, pay later (BNPL) company, went public. We also believe several other of our holdings, including Kraken and Plaid, could eventually access the public markets.

Many investors are excited about the next wave of IPOs. Retail investors are eager to gain access to companies they have followed for years, while index funds and ETFs could become significant buyers once these businesses are added to major benchmarks. At the same time, founders, employees, venture capital firms, and other early investors are seeking liquidity after years of private ownership. Professor Ritter's research offers both optimism and caution. When the Mag 7 companies entered the public markets years ago, they traded at revenue multiples of roughly 10x to 13x sales, and generated average returns of approximately +46% during the three years following their IPOs. However, Ritter's analysis found that IPOs from 1980 through 2024 that came public at more than 40x revenue, generated average three-year returns that were nearly (60%) below their IPO prices.

Professor Ritter recently said, "At the potential prices that have been reported, it would be very difficult for an investor to come out ahead in a three-year period." Recent history offers additional support for that view. While many IPOs still generate strong first-day trading gains, newly public companies have underperformed the broader market by roughly 25 percentage points over the past several years.

The next wave of IPOs may ultimately produce some of the most successful companies in history. Whether they also produce exceptional returns for new shareholders will depend largely on the valuations at which they come public. Facebook/Meta provides a useful reminder. Investors who purchased shares after its 2012 IPO have enjoyed extraordinary returns (roughly +1,500%), but those who waited until the stock declined during the six months following its offering ultimately generated even stronger returns (nearly +2,500%). Great companies often become even better investments when purchased with patience and valuation discipline.

#### **Conclusion:**

The second quarter highlighted an important reality for investors: uncertainty rarely disappears. Geopolitical tensions, shifting monetary policy expectations, inflation concerns and rapid technological change continue creating headlines and short-term volatility. Yet financial markets have historically demonstrated a remarkable ability to adapt and evolve.

Recent earnings seasons have also reinforced an important reality for investors: meeting expectations is often less important than the expectations themselves. Markets frequently react less to absolute outcomes and more to the gap between perception and reality. Understanding what is already reflected in prices often matters just as much as understanding the underlying fundamentals.

Throughout our history, we have generally preferred ‘picks-and-shovels’ opportunities and network businesses rather than attempting to predict the ultimate winners and losers of a particular technology cycle. Whether discussing exchanges, payment networks, stablecoins, prediction markets or broader financial infrastructure, we continue to believe that the most durable opportunities often reside in the businesses building the rails beneath these evolving ecosystems.

As always, thank you for your continued confidence and support. Please feel free to reach out if you would like to discuss any of these topics in greater detail.



**Warren Fisher, CFA**  
Founder & CEO  
Manole Capital Management  
[warren@manolecapital.com](mailto:warren@manolecapital.com)

#### Cliff Clavin’s “Useless” Information:

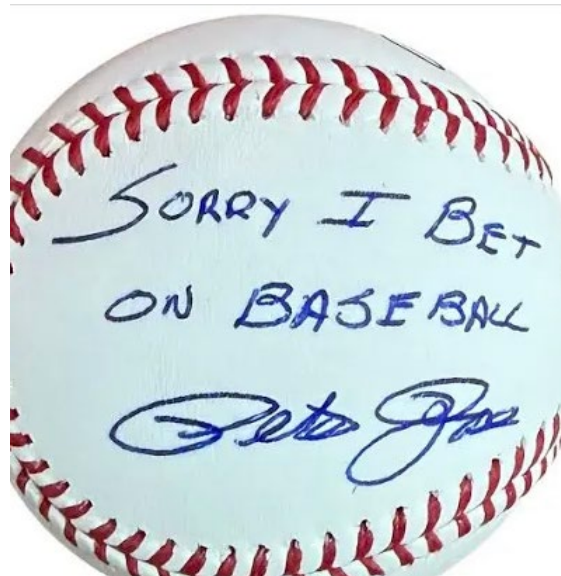
In the 1980s, one of our favorite TV shows was *Cheers*. The know-it-all postal worker was named Cliff Clavin and played by actor John Ratzenberger. This recurring segment of our newsletter highlights a few pieces of trivia and observations that Cliff might appreciate.

A baseball player could get a hit in all 162 games in a season, for 26 straight seasons, and he would still be 44 hits shy of reaching Pete Rose’s all-time record of 4,256 hits.

Unfortunately, Pete Rose was not elected to the Hall of Fame, as he was placed onto the permanently ineligible list (for betting on baseball). Once he passed away, Commissioner Rob Manfred posthumously reinstated Rose, and we hope he’ll get his spot in Cooperstown in December 2027.

Larry Fitzgerald will ultimately make the NFL Hall of Fame, and he played football for the Arizona Cardinals for 17 seasons. During his career, he had more tackles (41) than dropped passes (29).

Despite the odds of filling out a perfect NCAA men’s college basketball bracket being 9.2 quintillion to 1, we still think we’ve got the winning formula every March.



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