Introduction:

The end of the year affords us an opportunity to step back from the day-to-day and assess the past 12 months. More importantly, it allows us to reflect on the market and consider the road ahead. While markets are constantly reacting to new data points, policy statements, and forecasts, long-term outcomes are ultimately driven by fundamentals, discipline, and positioning. That perspective guides how we invest and how we communicate with our partners.

We recently delivered an extensive presentation that covered a wide range of topics, including investing, the market environment, technological trends, artificial intelligence, trading activity, predictive markets, and changes across the payment landscape. For this investor newsletter, we are using a slightly different format. Rather than focusing on short-term market moves or making bold predictions, we are organizing our thoughts around a set of core themes that we believe will shape markets and our FINTECH investments as we move into 2026. This newsletter is structured into clear sections covering investing principles, the market environment, macroeconomic dynamics, trading trends, digital assets, and payments innovation. To complement the written commentary, we include links to a small selection of slides that further illustrate each topic. The slides are intended to provide additional context and visual support, not to replace the written discussion.

We are not attempting to predict every market move or headline in the year ahead. Instead, our goal is to highlight the forces we believe are most important, explain how they interact, and outline how we are thinking about risk and opportunity. As always, we remain focused on fundamentals, valuation, and long-term compounding as we position portfolios for the years ahead.

Investing:

Investing requires patience, perspective, and an understanding that long-term success is not determined by every daily move. Rafael Nadal's remarkable record at the French Open provides a useful analogy. He won 14 titles while capturing only a little more than half of the total points he played. His dominance came from winning the moments that mattered most, not every point along the way.

Markets operate in much the same fashion. Daily volatility can feel significant in real time, but these fluctuations rarely determine long-term outcomes. Pullbacks are a normal and recurring feature of markets and should not be confused with lasting weakness.

Investors typically experience several short-term declines each year, yet markets have historically compounded at attractive rates over longer periods. Remaining focused on fundamentals, valuation, and quality has proven far more important than reacting to short-term noise. Our objective is to stay disciplined, selective, and positioned for durable compounding over time.

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Predictions:

We are not going to create a Letterman Top 10 List (which we used to love), nor are we going to make controversial proclamations or provocative forecasts. We will leave that to the economic experts who are paid to make bold predictions about the economy.

To be clear, we are not dismissive of these forecasters. Many are intelligent, well-educated, and deeply connected to the "market pulse". They build detailed models and present thoughtful evidence to support their views. That said, we are not macro prognosticators. Our preference is to focus on fundamentals, dig into company-level details, and build portfolios based on discipline and valuation.

Forecasting is difficult, even for experienced professionals. For context, the current consensus forecast suggests the S&P 500 will rise by approximately +11% in 2026. Over the last twenty-five years, Wall Street strategists have predicted positive returns ***every single year.*** During that period, the S&P 500 declined in seven of those years, meaning forecasts were wrong roughly 28%

of the time. While the average annual forecast called for gains of +8.9%, actual average performance was closer to +7.7%. In other words, the long-term average forecast was reasonably close to realized market returns, even if the year-to-year accuracy was far from perfect.

Rather than offering predictions, we prefer to discuss the key issues facing our FINTECH companies and the broader markets. Our objective is not to predict outcomes, but to share how we are thinking about risk, opportunity, and positioning as we move forward.

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Biggest Story of 2026:

We were recently asked what we believe will be the "big story" of 2026. While our magic 8 ball is not cooperating, we think the most consequential development of the year will arrive early in 2026: the appointment of a new Federal Reserve Chairman.

President Trump will nominate a new Fed Chair to replace Jerome Powell when his term ends in June. We have previously shared our views on potential Fed nominees and successfully predicted that President Trump would select Jerome Powell in 2016. More recently, we published a concise three page note outlining who we believe will receive President Trump's nomination this time around - Kevin Warsh. In a few paragraphs, we will even discuss how investors could potentially make a bet on that Fed decision, but I digress.

We believe President Trump will make this important announcement in January, giving his selection ample time to influence expectations, shape market behavior, and impact asset prices well ahead of the formal transition. That timing raises an important question. How do markets react during the final six months of the current Fed leadership once a successor has been clearly identified?

Why does the selection of the next Fed Chair matter so much? Because monetary policy is ultimately about confidence, signaling, and credibility. Markets do not wait for formal decisions, but they do move on expectations. A clearly identified successor, particularly one who communicates a distinct view on inflation, growth, or financial conditions, can influence asset prices long before taking office. We have seen this dynamic play out in prior leadership transitions. Forward guidance and perceived policy leanings often shape interest rates, yield curves, and risk appetites well in advance of any change in policy tools. In that sense, the nomination itself can be as consequential as the first-rate decision made by the incoming Chair.

As investors, this transition matters because changes in leadership often coincide with shifts in tone, priorities, and tolerance for financial risk. Whether the next Chair leans more hawkish or more accommodative, the market's attempt to anticipate that posture will be a defining theme as we move through 2026. Regardless of who is ultimately nominated, we expect the next Fed Chair to be a high profile and closely scrutinized choice. The reason is straightforward. That individual will exert enormous influence over the roughly $150 trillion US bond market and the approximately $62 trillion US publicly traded equity market. Very few appointments carry that level of financial consequence.

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Macro:

Monetary policy is rarely straightforward, and the Fed continues to operate in an environment defined by competing risks. Policymakers remain caught between concerns over inflation and signs of softening in the labor market. The Fed describes itself as "data dependent," relying on backward-looking information while attempting to shape policy for an uncertain path ahead. In many ways, this approach is akin to driving a car while relying primarily on the rearview mirror, using historical data to navigate forward-looking decisions. Complicating matters further, the recent government shutdown delayed several key data releases, limiting the Fed's ability to assess real-time economic conditions.

A key question is whether the most recent rate cut marks the final move under Chairman Powell's leadership. He recently noted that the Fed is "well positioned to wait and see how the economy evolves from here." That language suggests policymakers may be inclined to hold borrowing costs steady unless labor market conditions weaken more meaningfully. With visibility already constrained, this posture reinforces the Fed's preference to avoid acting prematurely in an uncertain environment.

Market expectations currently reflect a cautious and limited easing cycle. Based on the CME's FedWatch tool, Fed officials project only one rate cut next year. We believe that outlook may underestimate the potential impact of incoming changes in Fed leadership. Still, the near-term path of policy is largely priced into markets, which reduces the likelihood that any single Fed decision will materially alter investor behavior.

Recent policy decisions also highlight growing internal debate within the Fed. For the first time since 2019, the rate-setting committee was divided. Two members favored holding rates steady, while President Trump's most recent appointee, Stephen Miran, called for a 50-basis-point cut. Such divisions underscore the tension between various members of the FOMC, as well as differing views on persistent inflation and employment concerns.

Annual inflation is currently running at or just below 3%, still above the Fed's stated 2% target. While tariffs have contributed to some price pressures, their overall impact appears more muted than many economists initially feared. Meanwhile, despite recent strength in hiring, the unemployment rate recently reached a 4-year high of 4.4%, signaling a labor market that is cooling but not collapsing.

Additional Fed Funds cuts may modestly steepen the yield curve, but they are unlikely to alter longer-term economic trajectories. In this environment, we continue to see a resilient US economy. Market performance will ultimately be driven by earnings growth, consumer resilience, and global demand, not by incremental adjustments to short-term interest rates.

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Our Economy:

Looking ahead to 2026, we are focused on two important questions about the state of the US economy. The first is whether the job and labor market is fundamentally broken. We believe the labor market weakness this summer reflects a temporary hiring pause, most likely triggered by uncertainty following the tariff announcements and "Liberation Day" in April. While AI is displacing certain jobs, we expect some of this labor market softness will begin to thaw as uncertainty fades and demand stabilizes.

The second area of focus is economic growth and the timing of fiscal tailwinds. We are optimistic that several "not so subtle" stimulus initiatives could lift sentiment and spending. For example, the *Warrior Dividend*, or $1,776 payments to members of the military, should inject incremental demand into the economy and help support household spending. In addition, we believe the upcoming tax season may result in larger-than-usual refunds for lower-income households. Many are forecasting increased tax refunds in the second quarter of 2026, driven by provisions within the One Big Beautiful Bill.

Market Overview:

Markets continue to navigate a mix of resilience and uncertainty. Corporate earnings have generally held up well, employment remains relatively stable, and economic growth has been stronger than many expected. These factors have supported risk assets for much of the year and continue to provide an important foundation for the broader market environment.

At the same time, the economic landscape reflects a clear divide between the haves and the have-nots. Higher-income households benefit from strong balance sheets, rising net worth, and meaningful equity ownership. These groups continue to drive spending and consumption. Lower-income households, by contrast, remain under pressure from higher borrowing costs, rising delinquencies, and greater reliance on credit card debt. This imbalance contributes to an uneven consumer backdrop even as aggregate economic data remains constructive.

Market leadership remains concentrated in the largest technology companies, and investor FOMO continues to influence behavior in select areas. While there are pockets of concern around the sustainability of AI-related capital spending, broader market fundamentals remain intact.

Periods of elevated optimism often bring renewed focus on potential IPOs and marquee private companies. Questions about whether SpaceX might eventually go public, or whether companies like ByteDance or OpenAI could follow a similar path, tend to resurface when risk appetite improves. Developments like these can inject a dose of "animal spirits" into markets and influence sentiment, even before any formal filings or timelines emerge. Whether such offerings ultimately prove to be compelling investments is a separate question entirely, one that requires careful analysis of fundamentals rather than enthusiasm alone.

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Trading:

The trading environment has undergone a significant transformation over the past several years. Free equity trading, fractional shares, and seamless mobile access have broadened investor participation and accelerated activity across major brokerage platforms. Trading volumes continue to rise at firms such as Schwab, Interactive Brokers, and Robinhood, and extended-hours access is becoming increasingly common. These developments have reshaped liquidity and increased the speed at which markets incorporate new information.

Retail participation has become a defining feature of modern markets. Investors now can express views across asset classes, time horizons, and geographies with unprecedented ease. While this democratization has improved access and engagement, it has also contributed to greater short-term volatility and faster sentiment shifts, particularly around news-driven events.

Recent discussions and rumors about potentially moving away from quarterly reporting requirements give us pause. While no formal changes have been enacted, such a shift would represent a step backward for long-term investors. Regular, standardized disclosure has historically reduced information asymmetry, improved accountability, and reinforced a focus on fundamentals. Moving away from quarterly reporting could increase speculation, widen information gaps, and encourage markets to trade more on narrative than on results.

From our perspective, transparency and consistent disclosure remain critical to healthy capital markets. While trading technology will continue to evolve, long-term investors benefit most when information flows are timely, comparable, and reliable. Any change that diminishes visibility ultimately favors short-term trading over thoughtful capital allocation.
Understanding how liquidity forms, how information is disseminated, and how incentives are structured has become increasingly important in this environment. These dynamics will continue to influence market behavior well beyond individual news cycles.

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Predictive Markets:

If you want to "place some action" on a college football game or an NFL team, you can do so legally in 38 states through online sportsbooks such as DraftKings, FanDuel, or Hard Rock. But what if you want to "express your opinion" on who becomes the next head of the Fed?

In that case, you can now do so through familiar financial platforms such as Robinhood, Coinbase, SoFi, Webull, and others. These firms have partnered with platforms like Polymarket and Kalshi. Together, they allow customers to trade simple YES or NO derivative contracts tied to a wide range of outcomes, including sporting events, weather patterns, political elections, commodity prices, and even monetary policy leadership.

On any given Saturday or Sunday, Americans love to sit on the couch and watch hours of football. With the stock market closed on Saturdays and Sundays, consumers have been placing wagers on their favorite sporting events. While traditional sportsbooks act as the counterparty to these bets and operate as "the house," a new type of trading has emerged: predictive markets. These platforms, by contrast, generally serve as facilitators, matching buyers, and sellers on each side of a contract and earning a transaction fee, a structure that looks far more like our financial exchanges than a casino.

For platforms like Robinhood, there is clear excitement around allowing customers to access predictive markets to further democratize finance. Since launching the product roughly a year ago, Robinhood has turned predictive markets into an estimated $100 million annualized revenue business. The broader market has grown just as quickly. Total predictive trading volumes were less than $100 million in April 2024 and are now over $13 billion per month. From Robinhood's perspective, this represents a natural progression and evolution in finance. CEO Vlad Tenev recently said on X, "Prediction markets are often dismissed as 'gambling,' just like cars were once dismissed as 'horseless carriages'."

On the other side of that argument are more traditional platforms such as Schwab. Its CEO, Rick Wurster, has been clear that he "does not want young investors to confuse betting on a Monday Night Football game with investing in stocks and bonds." Another brokerage platform, Public, appears to be trying to thread that needle. Its co-founder, Leif Abraham, has noted that while "event contracts may have a place and sports contracts can be fun, that place should not be an investing account."

This sentiment reflects a broader concern shared by many established firms. Contracts tied to sports outcomes may be entertaining, but they look far more like gambling than investing. That raises a fair question. Is your brokerage account slowly turning into your weekend bookie?

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Digital Assets, Tokenization & Regulation:

Digital assets continue to mature and are becoming more integrated into the global financial system. Regulatory clarity has improved, providing banks and financial institutions with a clearer framework around custody, credit, and broader digital asset usage. This has encouraged increased institutional participation and reduced some of the speculative stigma that characterized earlier phases of the market.
Tokenization is also gaining momentum as institutions begin placing real-world assets, securities, and financial instruments onto both public and private blockchains. This evolution offers faster settlement, improved transparency, and more flexible access to global liquidity, all of which have meaningful implications for capital markets infrastructure.

At the same time, regulatory asymmetry remains a growing issue. Following Dodd-Frank, traditional banks are largely restricted to a narrow set of permitted activities. Nonbanks and FINTECH firms, by contrast, face fewer constraints and have been able to offer increasingly "bank-like" products and services. Digital asset and crypto-native companies are steadily gaining access to functions historically reserved for banks, including deposit gathering and yield-bearing products. One Treasury official recently estimated that payment stablecoins could ultimately siphon off as much as $6.6 trillion of bank deposits, roughly one-third of the total US deposit base.

Without meaningful regulatory modernization, traditional banks risk falling behind. If consumers and small businesses are offered lower-cost banking services through FINTECH platforms, incumbents will struggle to compete. Innovation and competition are core strengths of the US economy, but they require a level playing field. Absent that balance, the structure of the banking system itself may continue to shift in profound ways.

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Payments & Stablecoins:

Payments have traditionally been an area that prefers to move slowly. We often say that payments are more *evolutionary than revolutionary*, but that pattern is beginning to change. The gradual removal of paper checks and the decision to stop minting pennies illustrate how the system is finally moving away from outdated processes. At the same time, real-time payment networks continue to expand, and online and mobile transactions are gaining share across all demographics.

Stablecoins are becoming a meaningful part of this evolution. They offer faster settlement, improved efficiency, and lower operational friction for businesses that move significant volumes of money each day. Major payment companies and financial institutions are actively exploring stablecoin pilots that enable instant payouts and real-time funding, particularly for cross-border and high-frequency transactions.

The enduring appeal of card payments is their universality. Consumers trust that Visa and Mastercard will be accepted globally, allowing transactions to occur quickly and seamlessly, particularly on mobile devices. Card payments are fast, convenient, and offer meaningful consumer protections. Merchants have benefited from higher spending per visit, reduced cash-handling risks, and the growth of e-commerce and contactless transactions. These advantages are often taken for granted in today's payments ecosystem.

After more than 20 years of litigation, Visa and Mastercard agreed to yet another settlement that gives merchants greater flexibility, including the ability to surcharge and to opt out of "honor all cards" rules. While this may not meaningfully alter daily behavior at first, it could become frustrating for consumers who are told by clerks that certain Visa or Mastercard products are not accepted. We expect some retailers to prohibit the use of premium consumer cards while continuing to accept commercial or lower-tier cards.

Increasingly, some merchants are choosing to dictate how customers pay. The old mantra that "the customer is always right" appears to be giving way to policies that restrict card choice. Being told that a Platinum American Express card, a Chase Sapphire Reserve Visa, or a World Elite Mastercard is not permitted, despite carrying the same network logo, feels counterintuitive. Asking consumers to navigate which specific cards are accepted at checkout borders on the absurd. It is unreasonable to expect an 18-year-old cashier to enforce the fragmented payment policies that large retailers have spent decades litigating for.

Over time, consumers may begin to feel as though they are being asked to subsidize a merchant's operating costs, whether for electricity, air conditioning, or payment acceptance. How these tensions are resolved will shape the future of payments, consumer choice, and competition across the financial system, determining whether the landscape evolves in a consumer-friendly direction or becomes increasingly fragmented and opaque.

[Related Slides]

Conclusion:

As investors, our job is to look past the noise, whether it comes from central bank theatrics, political headlines, or the latest AI buzz. We remain disciplined, patient, and focused on cash flows and fundamentals. That approach has served us well, and we believe it will continue to deliver value in the years ahead.

As we entered 2025, the world was expecting a year of rapid growth in capital markets. The period following "Liberation Day" in April was challenging, as volatility and uncertainty about tariffs overtook the market. The second half of the year, however, saw a broad recovery in M&A activity, driven by falling interest rates, meaningful disruption from technological innovation, and a lighter-touch regulatory approach from the US government.

For our economy, we see an enormously constructive environment for growth and transformation. The IPO market appears to be thawing, which should help some of our late-stage, private FINTECH companies come to market. In addition, we believe there is meaningful pent-up M&A activity, which should be further supported by lower interest rates.

We hope that this quarter's newsletter reinforced an important message. Despite periodic volatility and constant headlines, the US remains uniquely positioned for long-term success. In our opinion, the broader takeaway remains clear. The foundation of the US economy remains strong, and the opportunity set is compelling for disciplined investors focused on durable compounding.

As a firm, we end 2025 with another high-water mark in assets under management. We could not have accomplished this without your support and trust. Looking forward, we are excited about the opportunities and portfolios we manage, and we believe our continued hard work will translate into strong results.

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Manole Capital:

Manole Capital will turn 11-years old in a couple of months, and we pride ourselves on having built a unique and differentiated asset manager, one that is exclusively focused on the emerging FINTECH space. We are designed and built to serve you, and we hope that you, our clients, experience our urgency, creativity, and passion for investing.

We wish you a joyous and happy holiday period with your friends and family, and a healthy, happy, and prosperous year ahead.

Enjoy!

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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 some "useless" information that Cliff would be proud of.

The Chinese use two brush strokes to write the word CRISIS. One brush stroke stands for DANGER, and the other means OPPORTUNITY. In a crisis, be aware of the danger, but recognize the opportunity.

Cisco finally regained the old all-time high. It took 25 years. In March 2000, the network equipment maker surpassed Microsoft to become the world's most valuable company.

According to KC Fed:

- 95.5% of US HH's have a bank account
- Yet, there are apparently 25m HHs that are "under banked"
- 71.5% of US HH's have a credit card account

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