

# Investing amid lawlessness

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Hello and welcome to this webinar on the slightly disconcerting topic of “Investing amid lawlessness”!

What I want to try to do today is take what looks like a completely random collection of recent news events and show that they actually share a common theme. And that that theme has real and rather specific long-term implications for how you invest.

The title is quite deliberate -- this isn't just about Trump or geopolitical noise or even Iran specifically, even as those things dominate some of the day-to-day market moves. I think we're seeing a structural shift that's going to keep affecting portfolios for years to come. I want to try to explain not just what's happening but why it's happening -- because I think understanding the why is actually what changes the investment conclusions.

# Disparate headlines conceal a common theme

Why does Elon Musk want to put AI data centers in space?

**America Is Depleting a More Powerful Weapon Than Its Missiles**

March 20, 2025 | 10:00 AM EST | 3:47 PM

**Trump statements about Iran raise questions about international law**

English speaking countries are miserable

**We must not underestimate the peril for democracy**

SI K11ts and Nevis + Add to myFT

**Bitcoin investor offers Nevis residents \$100 a month if libertarian city approved**

**How tech lords and populists changed the rules of power**

**The Big Thing: We Are In A World War That Isn't Going To End Anytime Soon**

## The Meaning of Anthropic vs the Pentagon

ECB warns Hungary's seizure of Ukraine cash risks euro credibility

US court blocks landmark law limiting social media use for children

Oaktree's Howard Marks Says Investors Are Underestimating AI

**Pentagon appears to be 'punishing' Anthropic in violation of free speech, judge says**

**Iran and the rising perils of AI in warfare**

When emigration helps bad rulers survive

Banks struggle to scale AI as legacy tech devours IT budgets

**Traders placed \$580mn in oil bets ahead of Donald Trump's social media post on Iran talks**

The future isn't what it used to be

Opinion Intellectual property

**AI is dressing up greed as progress on creative rights**

Opinion | Jonathan Clement

**AI's Copyright War Could Be Its Undoing. Only the US Can End It.**

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**Safeguarding cryptocurrency by disclosing quantum vulnerabilities responsibly**

## A descent towards lawlessness

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I've collected these headlines and I could have collected hundreds more. Maybe I should have added the third attempted assassination of President Trump.

The point is that they look completely disparate – courts blocking Trump, attacks on Iran, AI copyright issues, difficulties constructing new housing, oil bets placed just ahead of Trump's social media posts. Most people look at these and see a collection of unrelated crises, or at most are tempted to say the common theme is simply a few political bad actors.

For me, though, the common theme is a descent into lawlessness, the drivers of which run much deeper. Rules-based systems at every level are being progressively hollowed out. It's not just international: it's domestic, it's corporate, it's technological. I want to show that's not an accident, not just something associated with Trump and other populists, and that it's not going away.

Now that's a big claim – perhaps especially so given the Hungarian elections and with US courts pushing back on Trump in several areas – and I'm going to spend the rest of the presentation trying to back it up.

I'm also conscious that the theme itself is quite long term and hard to invest from, and that quite a few of you may want to tackle all the other things driving the short-term market outlook as well. Hopefully between the slides and the Q&A I'll manage to do justice to both.

## Agenda

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It's not just the fog of war

The drivers of lawlessness are structural

Implications for investors

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As usual, I've divided my presentation into three.

First, we'll look at what's happening in markets right now and why the unpredictability is driven by more than just the fog of war.

Second, I'll try and spell out the reasons why the underlying drivers of the shift towards lawlessness are not just political but structural. And then finally we'll look at what this means when it comes to making investments.

As usual, I'm going to go quite quickly through the slides. There's really a lot of data here, especially in the middle section, but the underlying principles are actually relatively straightforward, and then we can always revisit stuff in the Q&A if you want.

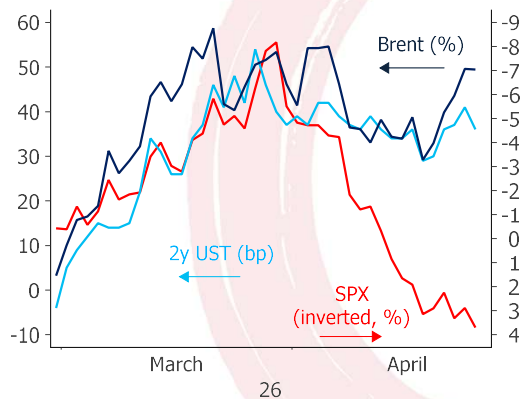
But if there's one thing I want to achieve in the next 35 minutes or so, it's to convince you that the lawlessness everyone wants to treat as temporary noise is ultimately what will most affect financial markets and your investments. Not necessarily next week. But over the next few years. And that while that may look like an impossible paradox between short- and long term, actually there are some quite specific implications even for portfolios as they stand today.

I'll leave time for Q&A at the end, though you can type in questions on the way through. Let's start with where markets are right now.

## Short-term moves driven by war and whim

### Oil driving everything

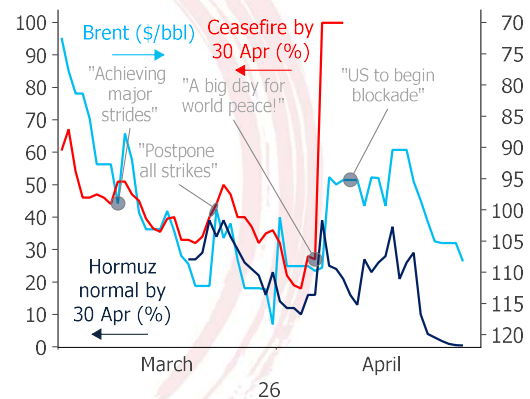
Chg since 28 Feb



Source: S&P Global, U.S. Treasury, Macrobond, Satori Insights.

### Trump tweets driving oil

Polymarket probabilities vs Brent (inverted)



Source: ICE, Polymarket, Bloomberg, Macrobond, Satori Insights.

## Markets just wish it was all over

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So clearly all short-term market discussions at present are dominated by Iran, by the effective closure of the Strait of Hormuz, and by speculation as to how long it's going to remain closed and how much damage that's going to do in terms of a stagflationary impact to the global economy.

I think there are two important observations to make here. One is that while oil clearly dominates everything, it's actually interesting how equities in particular, and to a lesser extent credit, have managed to break away from some of the oil price moves, basically rallying over the past week or two even as oil prices have spiked higher again. I'll have a bit more to say about that later but then we should almost certainly revisit it in the Q&A. There are some important monetary drivers which aren't really my focus today but which actually fit quite neatly into my usual framework.

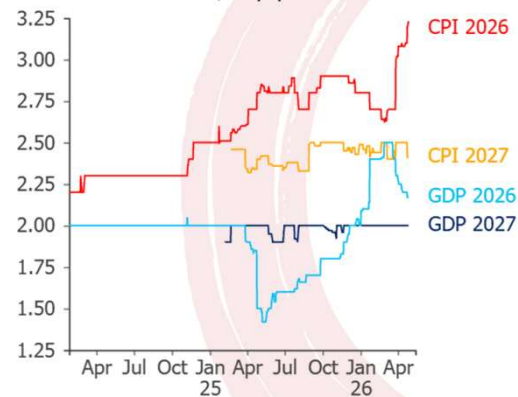
The second thing to say is that the near-term twists and turns are obviously completely dominated by Trumpian policymaking and that that remains almost completely unpredictable. Yes, perhaps we're gradually coming to the conclusion that the strait is going to be closed for longer rather than shorter, and yes, perhaps you may occasionally be able to trade some of the short-term moves by figuring at some point Trump chickens out – but in general it's really not obvious that even Trump knows his own mind or has clear objectives, and both real money and hedge fund performance seems increasingly correlated with the risk moves but is also lagging them.

The overwhelming impression I get from talking to people is that everyone just wishes things would go back to normal, back to fundamentals. And yet sort of my whole theme today is that even if the conflict ends, and even as risk keeps rallying, we can't and shouldn't just go back to those fundamentals because there's something deeper going on.

## Amazing how well risk has stood up

### CPI hit; GDP not yet

US consensus forecasts, % yoy



Source: Bloomberg, Satori Insights.

### Earnings estimates still growing

Consensus EPS growth, rolling 12mf blend, %



Source: Bloomberg, Macrobond, Satori Insights.

## Consensus on growth and earnings has barely shifted

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The first thing we should probably look at is why risk has held up so well. Some of that's a monetary story, but some of it's fundamentals.

If you look at consensus data, what's remarkable is just how little has moved. CPI expectations are now beginning to increase significantly, and that makes sense given oil prices and growing worries about fertilizer and food costs. But next year's CPI expectations are unchanged, GDP forecasts in the US are still above where they started the year, globally they're flat, and it's only really in Europe they're starting to be cut, and even then only by a quarter of a percent or so.

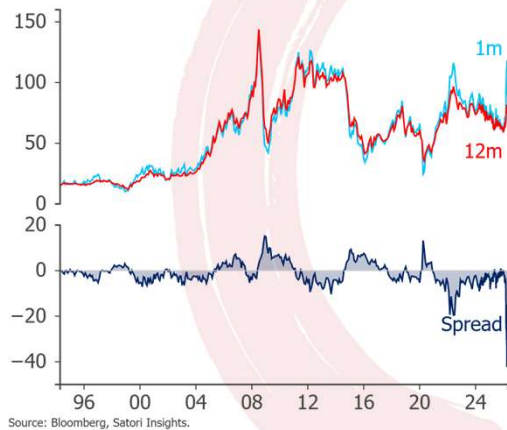
It's only really in Europe where they're starting to be cut and one or two people are talking about recession.

When it comes to corporate earnings expectations, the pattern is if anything more extreme still. Earnings estimates are still grinding upwards, not only given AI hyperscaler spending and semiconductor optimism but also more broadly.

## Three reasons for the resilient consensus (1)

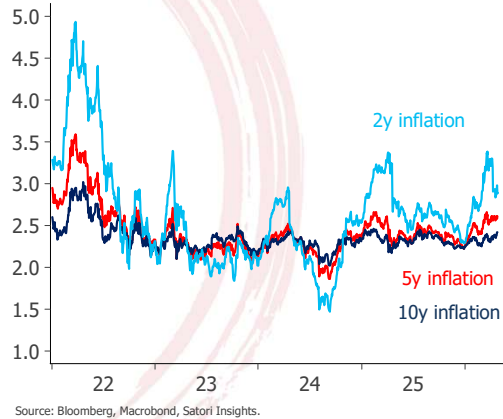
### Market thinks spike is temporary

Brent oil futures prices and spread, \$



### Risks rise nonlinearly if not

UST-derived inflation breakevens, %



## Markets still counting on rapid resolution

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All that feels a little bit at odds with some of the more obvious risks if oil prices stay higher for longer. As someone put it to me recently, all their friends who work in finance are mystified to see the S&P making new highs, while their friends who don't work in finance don't see anything odd at all and are simply buying as usual!

So why has the consensus been so resilient? Let me give you three reasons.

The first is that even people in markets think any oil spike is temporary. You can see that directly in the futures curve: spot prices are much higher but people's forecasts for one year out have only just begun creeping higher ever so slightly.

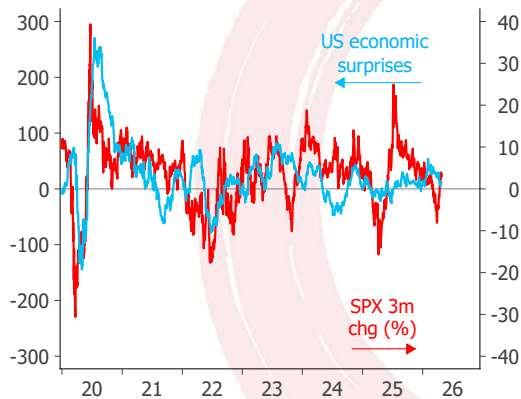
It's the same thing in inflation breakevens: they're only picking up very modestly at the very short end. Five-year and ten-year breakevens have barely moved at all.

Some degree of backwardation in oil clearly makes sense – there really are longer-term oversupply concerns which will play a role if there's a proper ceasefire – but at the same time there's obviously a vulnerability here as the conflict drags on and both sides still seem to think it's in their interest not to back down.

## Three reasons for the resilient consensus (2)

### Markets can overstate shocks

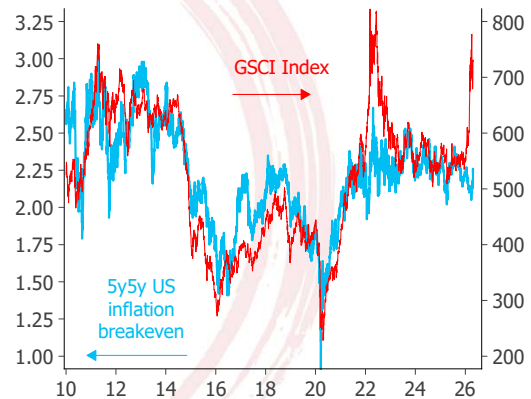
US economic surprise index vs equities



Source: Citi, S&P Global, Macrobond, Satori Insights.

### But every anchor has limits

GS Commodities Index vs TIPS breakevens



Source: Bloomberg, Macrobond, Satori Insights.

## Economy has proved resilient to multiple prior shocks

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The second reason for the resilient consensus is that the economy really has proved remarkably good when it comes to shrugging off multiple prior shocks. Whether it's last year's tariffs, or even Covid before that, we can make excuses in terms of offsetting stimulus but one way or the other there's been more flexibility and less tendency to fall into recession in recent years than many people might have expected.

You can see that pretty clearly in the economic surprise indices – obviously they're designed to mean revert, but still, the US has shrugged off what looked like serious hits repeatedly since 2019.

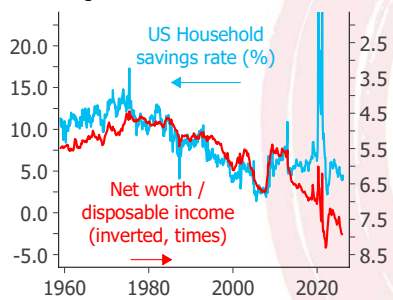
Now maybe we might worry that at some point that resilience breaks, and in fact even the current divergence between long-term inflation breakevens and commodities prices might make us worry that investors are simply too sanguine. But the fact remains that time and again, the economy has shrugged off shocks which might previously have been expected to cause recessions. The only question is whether the underlying reasons for that resilience remain intact, or whether some of them are more fragile than they appear.

Maybe we're getting close to it given this pick up in oil prices and commodities generally and the fact that inflation break evens have just begun to move.

## Three reasons for the resilient consensus (3)

### Have wealth, will spend

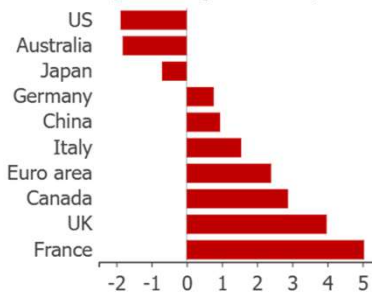
US savings rates vs household net worth



Source: Federal Reserve, BEA, Satori Insights.

### Dissaving exceptionally

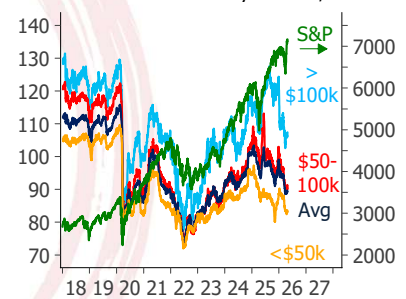
Hhold savings rate chg since 2019, %



Source: BEA, StatCan, INSEE, CAO, DESTATIS, ONS, ABS, DG ECFIN, OECD, Macrobond, Satori Insights.

### But if markets should fall...

US consumer sentiment by income, index



Source: Bloomberg, Macrobond, Satori Insights.

**Economy resilient in part *because* markets are resilient**

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And then the final reason is a bit circular, but may conceivably be the most important. To my mind the economy has been resilient partly because markets have been resilient.

US savings rates are near historic lows, and wealth effects are close to record highs. People are effectively spending their wealth gains rather than saving – and yet provided that spending and saving keeps pushing the equity market up, it sort of creates a perpetual motion machine.

Now there's a point where this may break. People are worried about the K-shaped economy, sentiment among poorer consumers started falling over a year ago, and more recently has started falling even among the wealthy – which looks increasingly incongruous as the S&P makes new highs.

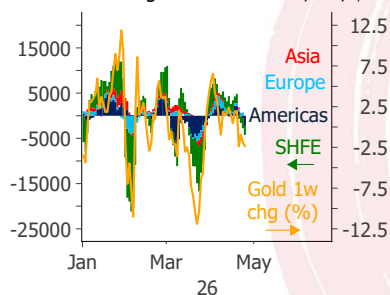
But for now it seems just as likely that gets resolved by sentiment picking up again as it does by the S&P falling. As long as markets hold up, confidence holds up, spending holds up, earnings hold up, and markets hold up. As I've said in previous notes, it's all a bit of a Ponzi scheme, backed by expanding credit and exuberance, but the thing about Ponzi schemes is that they're often quite sustainable provided people keep believing in them.

The flipside is that any serious market correction now has a faster feedback into the real economy than it would have done even a few years ago. The amplification is bigger, and the transmission times are shorter – which in turn is one reason why the policy response times have also become shorter. That's probably a discussion for another day, but for now that circular logic feels like an important input.

## Are investors becoming war-weary?

### Hotter positions flushed out

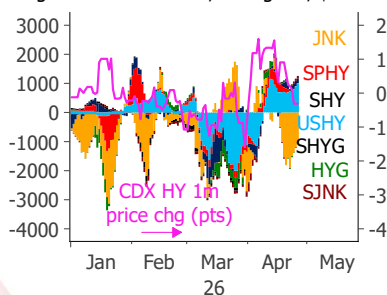
Gold ETF+Shanghai Futures flows, 1w, \$m



Source: Macrobond, SHFE, Satori Insights.

### Finding a bottom?

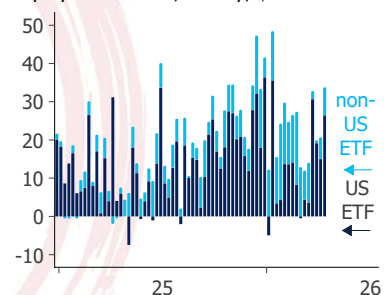
Largest HY ETF inflows, rolling 1m, \$m



Source: Bloomberg, Satori Insights.

### US dip-buying in force

Equity ETF inflows, weekly, \$bn



Source: ICI, S&P Global, Macrobond, Satori Insights.

**Dip-buying is back – precisely the behaviour lawlessness will eventually punish**

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So the final thing to say about the short term is that the buy-the-dip mentality seems very much intact. That creates a paradox of near-term durability but longer-term vulnerability.

Some of the hot positions did indeed get cut with the Iran attacks – for gold in particular it's interesting how it's trading directly with oil and US ETF inflows have fallen. But especially for US equities, and even in general, there's just been this remarkable willingness to keep piling into risk. That's sort of this odd mix of being oblivious and yet also being justifiably confident that if we keep pushing equities up we don't need to worry about politics, and as I say there's a monetary driver here in terms of credit expansion which I've not yet written about and which is also an important clue to its sustainability.

But for the purpose of today's presentation what seems ironic is that this dip-buying, for all that it may be temporarily sustainable, increases valuations and creates what feels like an ever more obvious mismatch with some of the political developments. Somehow when it comes to positioning we need to reconcile those two conflicting currents.

# The short term remains highly unpredictable

## Political

ECB warns Hungary's seizure of Ukraine cash risks euro credibility

**America Is Depleting a More Powerful Weapon Than Its Missiles**

Pentagon appears to be 'punishing' Anthropic in violation of free speech, judge says

**Trump statements about Iran raise questions about international law**

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## Structural

US court blocks landmark law limiting social media use for children

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**The Big Thing: We Are In A World War That Isn't Going To End Anytime Soon**

## Technological

### The Meaning of Anthropic vs the Pentagon

Why does Elon Musk want to put AI data centers in space?

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Opinion Intellectual property

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Opinion | Steve Liss, Columnist

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**Safeguarding cryptocurrency by disclosing quantum vulnerabilities responsibly**

**But the medium-term forces pushing towards lawlessness seem long-lasting**

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And here's where I think it's worth coming back to all those disparate headlines.

The market's sort of desperate to wish away the risks from the Iran war and from Trump threatening Fed independence; companies are desperate to ignore the risks coming from both conflict and tariffs; the AI companies are mostly anxious to downplay the risks of either political interference or of their models one day doing terrible things to humanity.

But if I reorganize those same headlines into three buckets -- political, structural, and technological -- you can see they're coming from multiple directions simultaneously.

This isn't just one administration or one election. It's systemic.

The short term is genuinely very hard to predict. I think prolonged conflict is more likely than imminent resolution, but nobody really has a good handle on this, and plenty of people have lost money trying.

The medium-term forces that are pushing towards lawlessness, on the other hand, look much more durable than the short-term noise around any deal or no-deal. They were there before Iran, they'll be there after Iran, and they're coming from several directions at once.

## Agenda

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It's not just the fog of war

The drivers of lawlessness are structural

Implications for investors

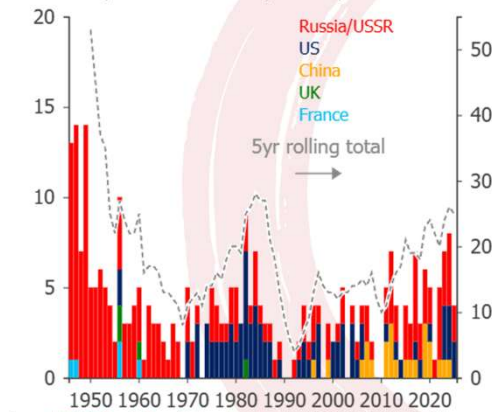
So let's now look at why that's the case, why the drivers are structural, and why – even if the Iran conflict goes away and President Trump loses the midterms or is even voted out of office – actually many of the underlying implications for portfolios are likely to remain regardless.

There's a lot of data in this section, and some quite complicated charts, but I think it's the principles which are important and which hopefully come across.

# The temptation is to see lawlessness as a purely political problem

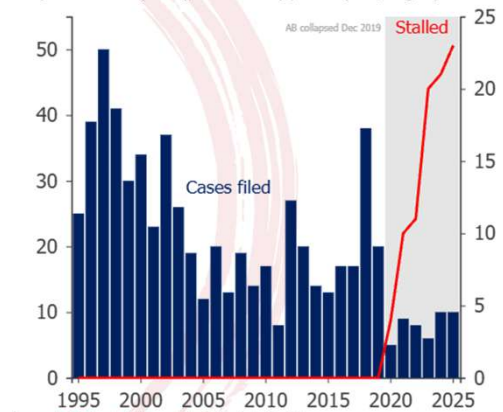
## UN becoming dysfunctional

UN Security Council vetoes by country



## WTO: cases fall, 23 appeals frozen

Disputes filed (bars); stalled appeals (line, right)



## The demise of the international rules-based order

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The temptation is to see all this as being about Trump or individual bad actors. But the data say it's broader than that, and it started earlier.

So if we look at, say, vetoes in the UN Security Council, we're getting back to Cold War levels – but what's really unusual is to see both Russia and the US blocking simultaneously.

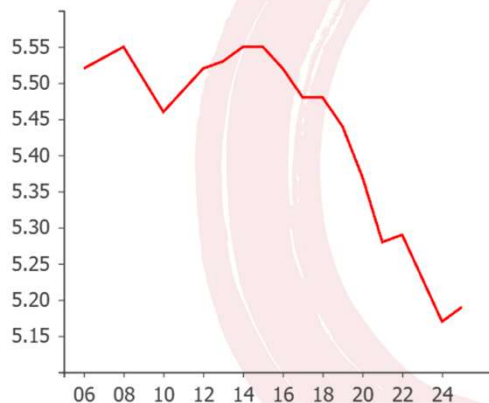
Or likewise with the World Trade Organization, the body they use for appeals has been non-functional since the US blocked appointments in 2019. That means 23 appeals sitting in a void, with no rulings possible. And that was under Biden, not Trump.

The international rules-based order has been hollowing out for years. Trump has accelerated it, but he didn't create it. The rot was there before him: there's something else going on.

## With similarly political domestic drivers

### Democracy in decline

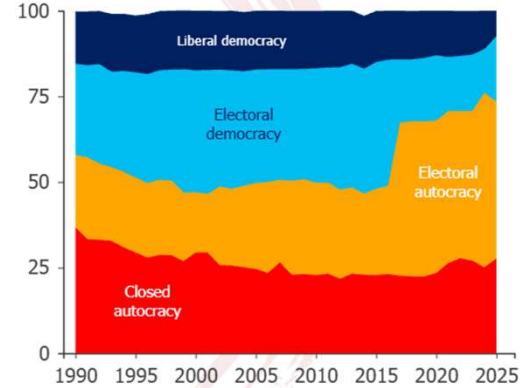
EIU Democracy Index, 167-country average



Source: EIU, Satori Insights.

### The world's democratic depression

Share of world population by regime type, %



Source: V-Dem Institute, Democracy Report 2026; Our World in Data, Satori Insights.  
Note: 2017 break — India (1.4bn) reclassified from Electoral Democracy to Electoral Autocracy.

## The decline in democracy and shift towards autocracy

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Likewise, the temptation is to say that even if the international rules-based order is indeed falling apart, it's just due to a slide towards autocracy – and that if we can reverse this perhaps the problem will go away. Indeed, *The Economist* even ran a story recently about “Global democracy is in better shape than you think”.

Unfortunately I think the slide towards autocracy is harder to stop than that article made out, and that the slide towards lawlessness is stronger even than the slide towards autocracy.

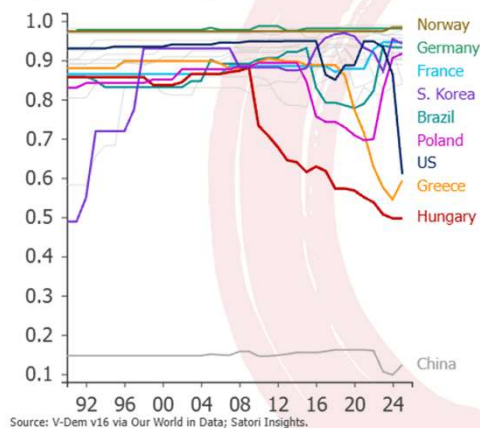
So yes, there was a modest improvement in the EIU Democracy Index this year, but it's still been falling pretty continuously since around 2014. And what you see on the V-Dem regime-type data is the same thing: this is a global trend, not a Western one. It predates Trump, predates Brexit, predates all of the most recent political dramas. India, Mexico, Turkey, Hungary, Brazil -- all moving in the same direction at roughly the same time.

We do get temporary encouraging stands against this trend – Carney in Canada, Lula in Brazil, hopefully now in Hungary too. But something more fundamental is at work than any individual leader. And that's what I'm trying to pin down in these slides.

## Some of this is indeed autocrats' willingness to break laws

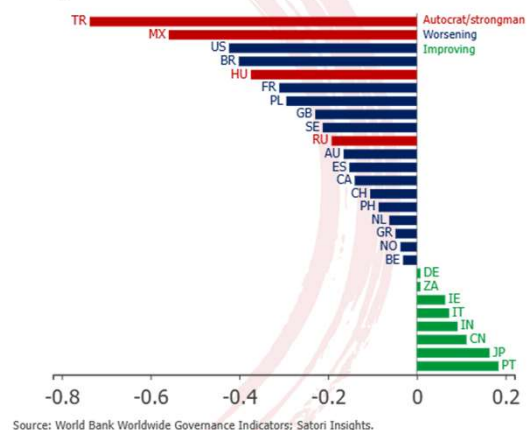
### Legislative checks eroding

Legislative checks on government index, 1990–2025



### Especially where strongmen hold sway

Change in rule of law score, 2012–2024



## But even non-populist democracies often show declines

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So digging a little deeper, some of this is obviously strongmen deliberately undermining checks and balances -- Turkey, Hungary, Russia, Mexico all sharply negative on rule of law. That bit you'd expect.

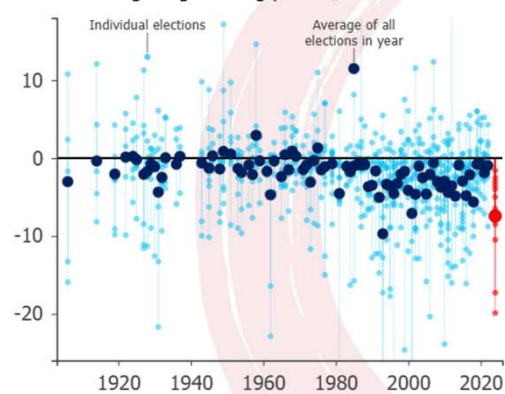
But the more interesting -- and to my mind the more alarming -- observation is on the right chart: most non-populist democracies are also getting worse. UK, France, Germany, Sweden, Netherlands -- countries that haven't elected strongmen, that have functioning coalition governments, are still declining on measures of rule of law.

This tells you it's more systemic than just the obvious bad actors. The problem is deeper than the populists. Even the countries that are doing things 'right' in terms of not electing authoritarian leaders are still seeing declines.

## It seems likely the drivers go deeper

### Incumbents increasingly thrown out

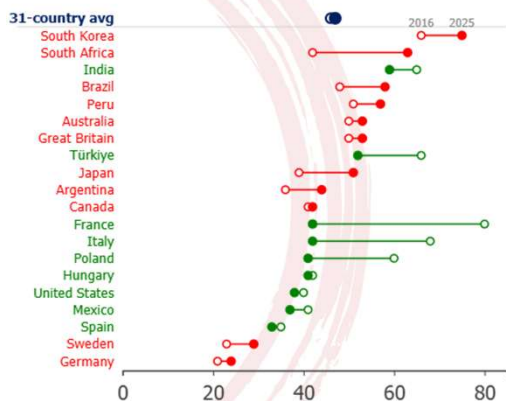
Vote share chg for governing parties, %



Excludes years where fewer than five countries had elections. 2024 individual data from FT research. Sources: [ParlGov](#); original chart: [John Burn-Murdoch / FT](#), Satori Insights.

### Rise (and fall) of the strongmen

"Need a strong leader willing to break the rules": % agree



Source: Ipsos Populism Reports 2016, 2025, Satori Insights. Red = higher than 2016; green = lower.

## Voter disillusionment applies more broadly

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Perhaps the purest measure of what's going wrong is simply the way electorates seem upset with their governments almost everywhere.

Incumbents are being thrown out – the FT had a great story and analysis on how 2024 was one of the worst years on record for governing parties' vote share across the world.

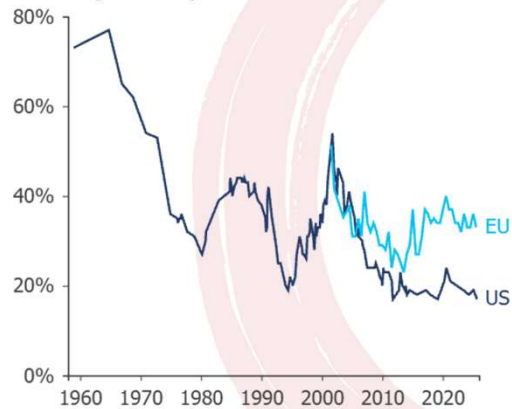
As you can see on the right, only some of this is about electorates getting fed up and saying they need a strong leader willing to break the rules, and doing so even in established democracies. The weird thing is, even when they've tried the strong leader breaking the rules – as in Brazil, or Hungary, or Poland – they still end up upset and vote those leaders out of office deciding that's not the answer either.

Especially in markets it's convenient for us to hope that that will simply bring people back away from the extremes towards the centre. But the common feature isn't that you try something extreme and then pull back. It's that voters are permanently and increasingly upset!

# The obvious cause is diminishing trust, in governments especially

## Trust in government has fallen sharply

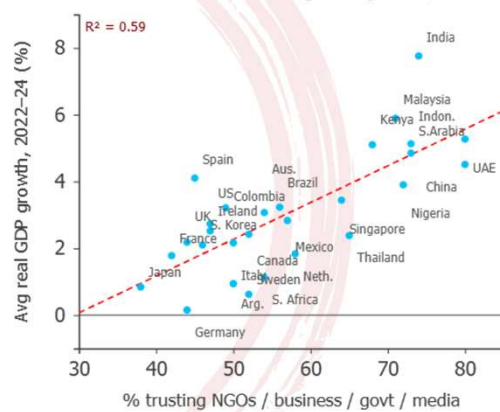
% trusting national government, US and EU



Source: Pew Research Center, Standard Eurobarometer, Satori Insights.  
US: Pew Research, 'always or most of the time'.  
EU: Eurobarometer, 'tend to trust' national government; EU avg, 2001-2025.

## Growth and trust go hand in hand

Edelman Trust Index 2026 vs avg GDP growth, 2022-24



Source: Satori Insights, Edelman Trust Barometer 2026, World Bank.

## Some of the frustration is declining growth

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So the obvious thing to look at here is trust in government.

Trust in government has been falling for decades -- in the US from around 75 percent in the 1960s to under 20 percent today. That's a remarkable decline especially given a backdrop of mostly decent growth. It's also remarkable because the decline's been even bigger in the US than it has in the EU.

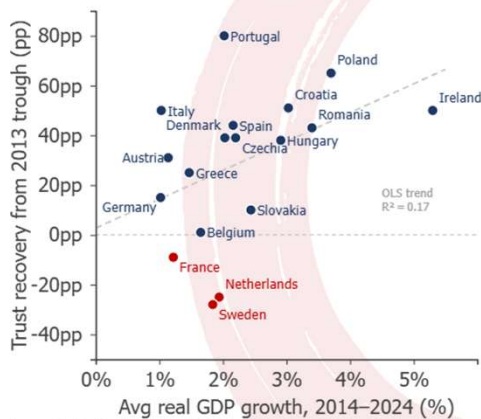
You can see the same thing on the right. Trust and growth go together in the aggregate, but the outliers are large.

Something more than just economic performance is driving this.

## But it's not just about growth

### Growth helps — but is not enough

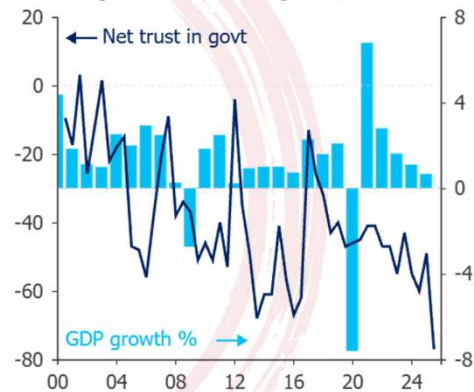
Trust recovery since 2013 trough vs GDP, 18 EU



Source: Standard Eurobarometer; IMF WEO via Macrobond; Satori Insights.  
Trust recovery = 2024/25 net trust minus min net trust in 2011–2015.  
Net trust = % 'tend to trust' minus % 'tend not to trust'. Ireland GDP excl. 2015 & 2021.

### Take France: trust fell regardless

Net trust in government vs GDP growth, %



Source: Standard Eurobarometer; IMF WEO via Macrobond; Satori Insights.  
Net trust = % 'tend to trust' minus % 'tend not to trust' national government.

**There seems to be something more structural**

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We can get a better insight into the global dynamics if we look at some of the country subsets.

So in Europe, for example, trust has improved almost everywhere since the sovereign debt crisis, along with growth – except in France, the Netherlands and Sweden, where it's fallen.

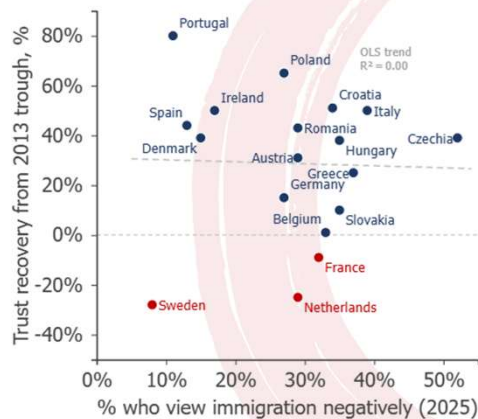
Maybe some of that is because I'm looking at the change in trust here, and they didn't have as much of a fall in 2012, but you can see from the France chart on the right that it's not the whole story. 2012 is indeed an awkward starting point, but you've still had this steady, if spiky, decline all the way back to 2000, which has accelerated recently under Macron, and which really has very little to do with the growth backdrop.

As the strapline says, there seems to be something more structural – and yet I'm not sure it's either of the obvious candidates.

# Right-wing populists would love to blame immigration

## Immigration is not the culprit

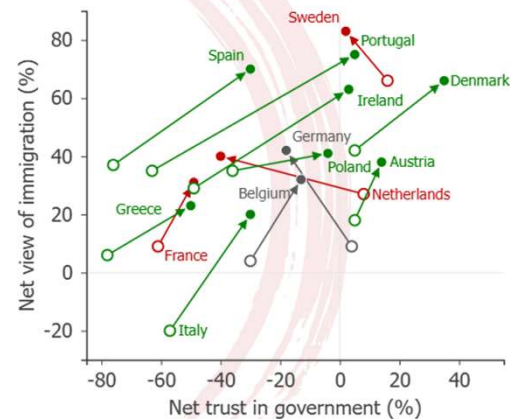
Trust vs share viewing immigration negatively



Source: Standard Eurobarometer; Satori Insights.  
Trust recovery = 2024/25 net trust minus min net trust in 2011–2015.  
Immigration negativity = % fairly/very negative (Eurobarometer Q59.278, 2025).

## All arrows up — but red ones go left

Net trust vs net immigration sentiment, 2014→ 2025



Source: Eurobarometer (Q18.89, Q59.278); Satori Insights. Open circle = 2014; filled = 2025.  
Red = trust declined; green = trust recovered; grey = flat.  
France: arrow slightly right as 2013 was trough; longer-run decline is structural.

### It's not immigration

The #1 obvious candidate has to be immigration. We hear it all the time from right-wing populists, and it's seductively simple. But the data say they're wrong, and quite decisively so.

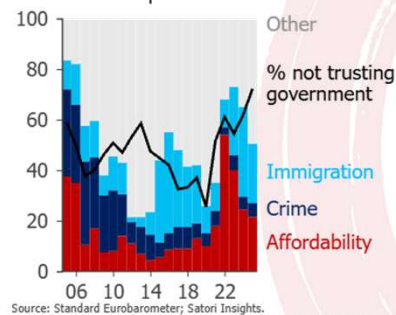
There's no meaningful correlation between negativity towards immigration and trust recovery across countries. If anything it cuts the other way -- attitudes towards immigration have actually improved in most places since 2014, irrespective of whether trust in government has been rising or falling. You can see it on the right-hand chart: almost all the arrows point upwards, for improved sentiment towards immigration.

So immigration is clearly a channel through which discontent expresses itself -- it gives people something visible to point at -- but it's not the underlying cause. The data are pretty clear on this. The same voters who say immigration is the main problem will name a completely different issue three years later, but the distrust remains constant.

## Left-wing populists would love to blame affordability

### Crime fell, distrust soared

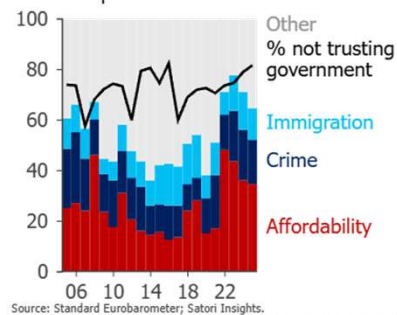
Netherlands: top concerns vs trust



Source: Standard Eurobarometer; Satori Insights.  
Bars: % of two most important concerns. Line: approx % not trusting govt.

### Concerns shift, distrust rises

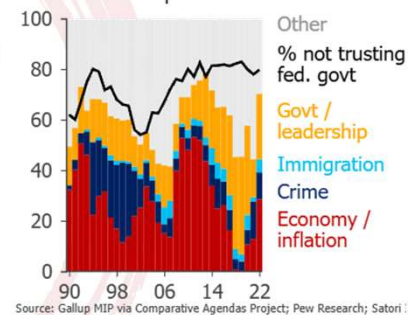
France: top concerns vs trust



Source: Standard Eurobarometer; Satori Insights.  
Bars: % of two most important concerns. Line: approx % not trusting govt.

### Not immigration — it's DC

United States: top concerns vs trust



Source: Gallup MIP via Comparative Agendas Project; Pew Research; Satori Insights.  
Bars: % citing as most important problem. Line: % NOT trusting federal gov

**Closer, but it's not affordability either**

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And yet nor is the explanation the other obvious candidate, namely affordability. Housing, cost of living, and inequality are a bit closer to the truth, but also not quite right – and again you can see it in the data.

So in the Netherlands, crime fell but distrust soared. Concerns about immigration and affordability have grown, but still don't really correlate.

In France, the top concern shifts from issue to issue but distrust rises regardless.

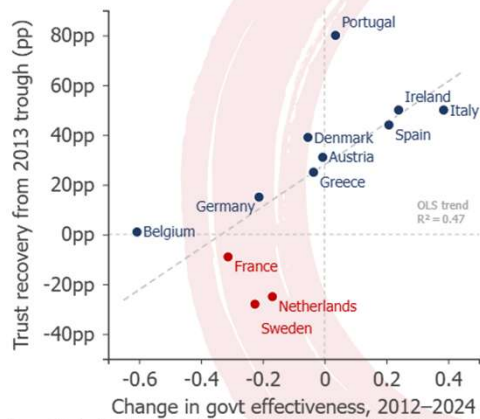
In the US, we have to use slightly different data but we find the same thing. It's not immigration or crime or the economy and inflation which explain the rise in mistrust – it's growing concerns about government.

We'll see in a minute that that applies more broadly. People are angry about government itself, not just about any particular thing government is or isn't doing. The trouble with that is that when that's the case, there's no single policy fix that restores confidence. You can build more houses or bring down inflation and people will just find the next thing to be angry about.

# What's really suffered is perceptions of effectiveness

## Governance explains more than growth

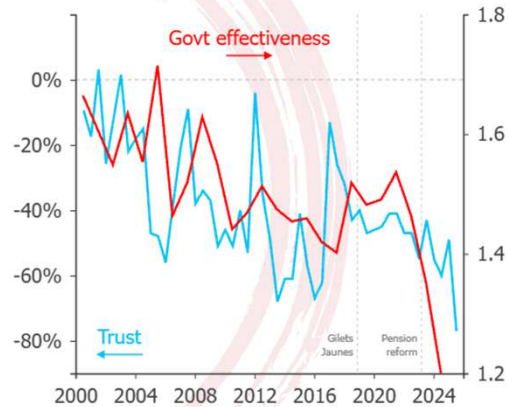
Trust recovery vs govt effectiveness chg



Source: Standard Eurobarometer; World Bank WGI via Macrobond; Satori Insights.  
Trust recovery = 2024/25 net trust minus min net trust in 2011-2015.  
Net trust = % 'tend to trust' minus % 'tend not to trust' national government.

## France: trust follows governance down

Net trust vs WB govt effectiveness score



Source: Standard Eurobarometer; World Bank WGI; Satori Insights.  
Net trust = % 'tend to trust' minus % 'tend not to trust' national government.  
WGI GE score: biennial 1996-2002, annual 2002-2024 (published with 1-2y lag).

## Electories are desperate for effective government

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So as far as I can see, across countries the single best guide to changes in trust in government is changes in perceptions of government effectiveness. Again it's perhaps bit difficult to capture through simple R-square or line charts, but you do get a much better fit than growth, or immigration, or affordability or any of the other obvious culprits.

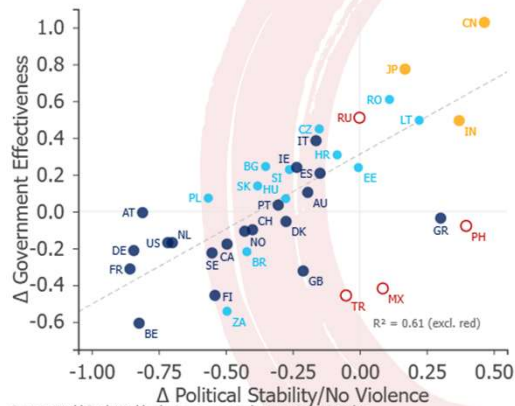
Where governments have become more effective -- Portugal, Ireland, a few others -- trust has recovered. Where they've become less effective -- France, Netherlands, Sweden, and the US -- it hasn't.

So electories are desperate for effective government, and they're simply not getting it. And when you can't get effective government through normal democratic channels, you start looking for other options -- including options that involve breaking the rules and electing leaders who promise to do so.

# Ineffectiveness feeds instability – and vice versa

## Ineffective = unstable

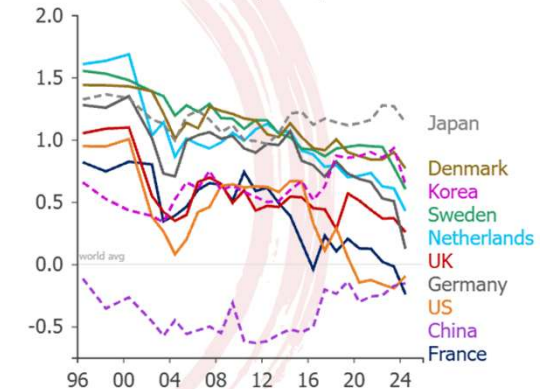
Change in political stability vs effectiveness, 2012–2024



Source: World Bank Worldwide Governance Indicators; Satori Insights.  
Red (hollow) = MX/RU/PH/TR: WB PV reflects authoritarian suppression, not fragmentation.  
 $R^2 = 0.61$  (excl. red)

## The West fragments; China stabilises

World Bank Political Stability score, 1996–2024



Source: World Bank Worldwide Governance Indicators; Satori Insights.  
Solid = Western democracies; dashed = CN (improving), JP (stable) and KR (Dec 2024 crisis).

## Too often the West is marked by instability and paralysis

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What you seem to get is this sort of self-reinforcing relationship between effectiveness and stability, as you can see here on the left. It's a virtuous cycle if you can get it going, but a vicious one if you can't.

The metric for stability is a World Bank Governance one and is unfortunately a bit ambiguous because it combines perceptions of stability with perceptions about the likelihood of not having violence. But generally what you can see is that places which are perceived to be stable are places where government is deemed to be effective, and vice versa. And a lot of the ineffective and unstable places are basically western democracies.

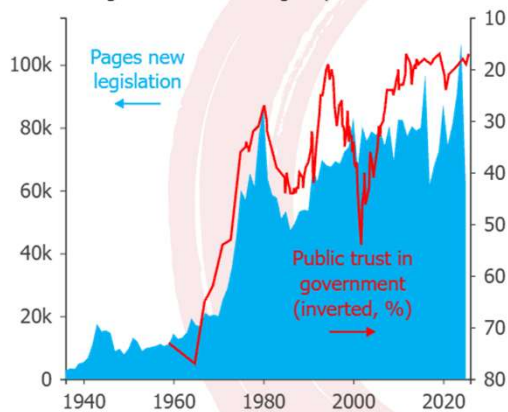
The red outliers are authoritarian countries where stability is achieved through suppression rather than competence – which is a bit different, and is conceivably fragile in a different way.

But you can see the time dynamics more clearly on the right: Western democracies almost all fragmenting and becoming less stable over the last decade, while China's political stability score has been steadily improving since 2012.

## Why is this happening? (1)

### More law, less trust

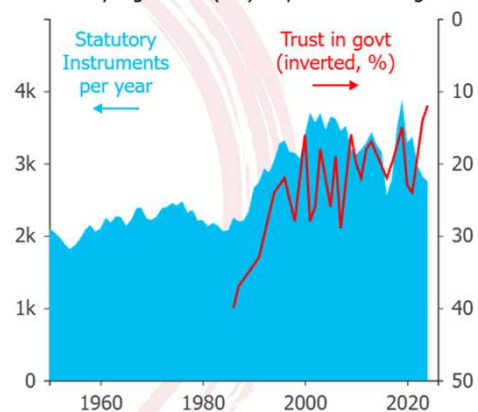
US federal legislation vs trust in govt poll



Source: Office of the Federal Register, Pew Research Center, Satori Insights.  
For a more detailed description of US dynamics, see *Why nothing works*, M. Dunkelman (2024).

### Easier to make laws than enforce them

UK secondary legislation (SIs) vs public trust in govt



Source: HoC Library (CBP-7438); NatCen British Social Attitudes 1986-2024; Satori Insights.

## Governments are legislating more but achieving less

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So this begs the question as to what's causing this failure of government effectiveness?

I think there are two structural drivers which are really important.

The first is that we seem to be much better at making new laws than we are at actually enforcing them. Someone wrote it as a comment in the FT about the Grenfell disaster in the UK: it wasn't that we didn't have laws against inflammable cladding, it's that they weren't enforced. But you can see it in the charts more broadly.

It wasn't that we didn't have laws against inflammable cladding that caused lots of people to lose their lives that we did have laws and they weren't being enforced and now you have a big mess as a result.

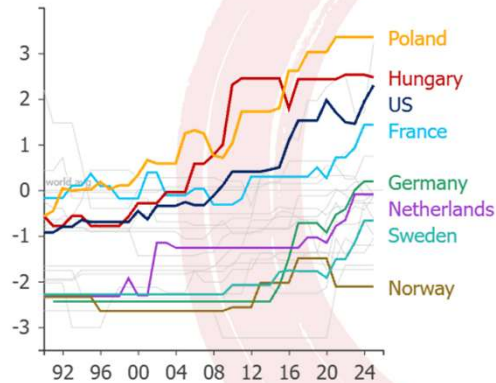
There's a brilliant book by Marc Dunkelman called *Why Nothing Gets Done* if you want the US detail. But the same is true in the UK, and I suspect elsewhere, as well: we get these increases in the number and complexity of laws, and yet steadily less trust.

That takes you to a scary place where laws make no practical difference to people's daily life, and where everyone becomes cynical. I guess the possibly unfair stereotype would be a sort of Italy on steroids. And this is partly why the populist response -- 'let's have a strong leader who actually does things' -- has such appeal even among people who know the risks.

## Why is this happening? (2)

### Societies dividing into hostile camps

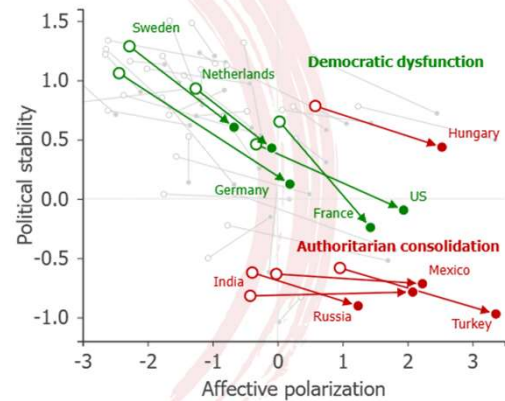
V-Dem political polarization score, 1990–2025



Source: V-Dem via Our World in Data; Satori Insights.  
v2cacamps: "Is society polarized into antagonistic political camps?" (V-Dem expert survey).

### Stability usually suffering

Polarization vs political stability indices, 2007-2024



Source: V-Dem v16; World Bank WGI; Satori Insights.

**Almost everywhere is becoming more polarized**

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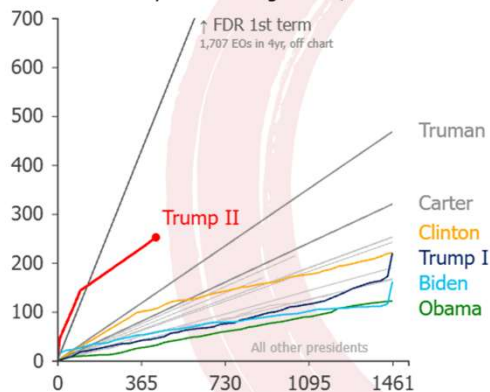
The second driver is polarization. Both in terms of political polarization and even just issue-by-issue polarization, a great many societies are dividing into hostile camps – just as in Poland, Hungary, the US, and France. Those are the places where stability is suffering the most. Conversely where you don't have much polarization, like Norway, nor do you get as much instability, nor a decline in government effectiveness.

So if we look at changes in polarization and changes in stability, here on the right, you can see that polarization has increased almost everywhere, and that the more polarization you have, the less is the likelihood of stability and the greater is the likelihood of violence. Lovely.

## This has led to executives trying to break the system

### Government by executive order

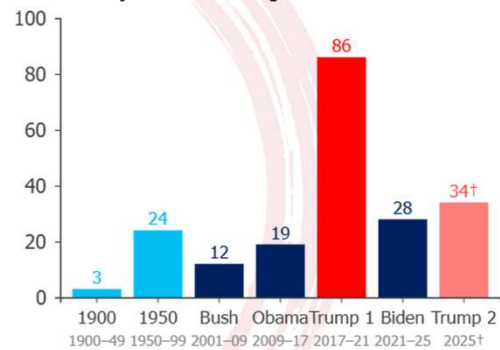
Exec orders vs days since inauguration, 1933–2026



Source: American Presidency Project, Federal Register, Satori Insights. Pre-1993: annual APP totals, constant rate assumed. Clinton Fed Register from Dec 1993.

### Courts fight back — spot the outlier

Nationwide injunctions blocking executive actions



† Trump 2: to Jun 27, 2025; SCOTUS (Trump v. CASA) then ended nationwide injunctions. Cyan bars: 1st and 2nd halves of 20th century; combined = 27 (AG Barr, 2019). Source: CRS (2025); DOJ (Bush, Obama). Red bars = Trump terms. Satori Insights.

## But the system (and sometimes voters) fight back

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You can see this most visibly in the US right now. Trump has been busy bypassing Congress with executive orders at the fastest pace since FDR – in a sense understandably so given the difficulty of getting things done.

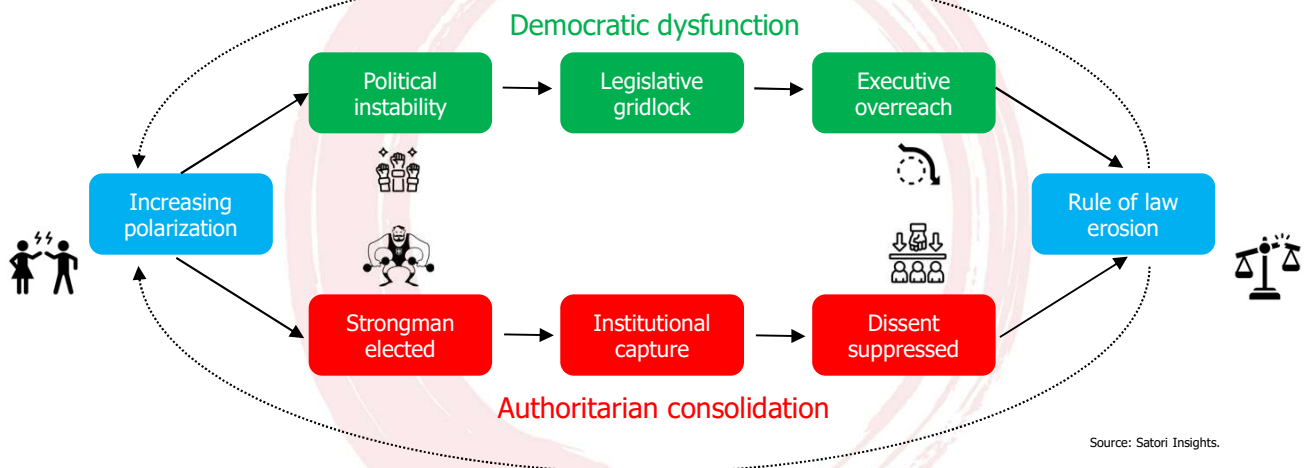
But despite stacking the Supreme Courts with his supporters, of course the courts have often been fighting back – we had 86 nationwide injunctions under Trump’s first term.

The cost of challenging executive overreach has gone up significantly.

There’s a lovely quote from Noah Feldman on Bloomberg: “If the courts are forced to pretend that falsehoods are true, the rule of law ceases to exist.” The system is fighting back -- courts showed real spine on the Fed case recently. But the longer-term trajectory is clear regardless. And I don’t actually want to get bogged down in the details of the US because again I think these processes are at work more broadly.

There was a proper pushback from the courts on the Fed in particular recently but the long-term trajectory to my mind is in the direction of further executive bypass and as I say I think there's a global process at work here and I think it's really difficult to escape from.

## Two routes, same destination



## Polarization + dysfunction lead, rule of law erosion follows

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You've sort of got two routes, but they both end up taking us to the same, horrible, destination. It makes a sort of doom loop.

Either the increasing polarization leads to unstable governments and legislative gridlock, which executives try to respond to by breaking the rules. Or the electorate responds by electing a strongman who rigs the system and deliberately sets out to break the rules. *Both* routes then take you back to an increase in polarization, so even if you start again you're effectively stuck in the same loop.

France is one of my favourite examples here. I happen to be a huge Macron fan – I genuinely think he's tried to do the right thing on not only geopolitical but also domestic issues like raising the pension age. But when even a good actor with the best intentions has to resort to Section 49.3 and bypassing parliament and normal legislative processes to get things done, it's sort of understandable that the electorate responds badly.

Elections don't reliably fix this, because the polarization determines how results are interpreted and whether they're accepted. The underlying forces keep pushing regardless of who's in office.

## Agenda

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It's not just the fog of war

The drivers of lawlessness are structural

Implications for investors

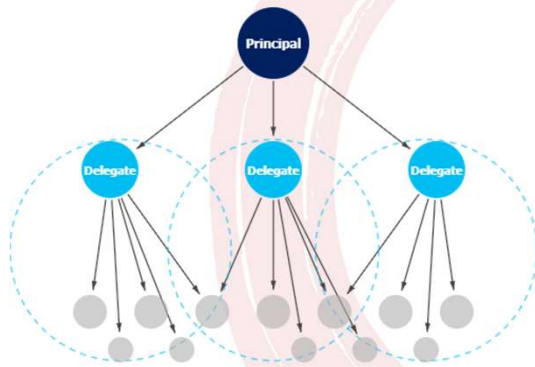
So we're stuck with this seemingly structural slide towards lawlessness. The snag for us here today is that this isn't just a political science observation. It's an investment observation. Rule of law erosion is exactly the thing that makes contracts less reliable, recoveries less predictable, and gap risk higher.

So what does all this actually mean for how you invest? I think the implications are quite different from what you'd expect if you just think about it as 'elevated political risk' or 'more volatility.'

## Scale and deepening have required a different trust model

### Delegated trust — effective but small

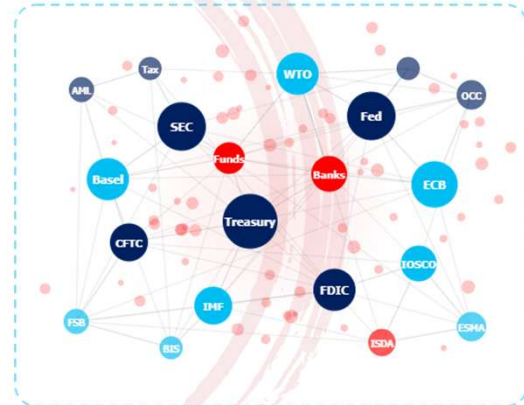
Hierarchical / personal / familial



Source: Satori Insights.

### Distributed trust — scalable but rigid

Rules-based / bureaucratic / institutional



Source: Satori Insights.

**We seem to be approaching its limits**

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The basic structural force which seems to be driving all this is a limit on what Francis Fukuyama calls the “radius of trust”.

Trust in small groups works with a sort of family model. Trust on a bigger scale migrates to a different, more bureaucratic and rules-based model. On the one hand it’s more scalable, but on the other hand even it has limits.

I used to joke when I moved from JPMorgan to Citi back in 2000 that JPMorgan followed the left-hand model - “our reputation is important to us. We’re going to hire first-class people and expect them to do business in a first-class way” – while Citi followed the right-hand model: “our reputation is important to us. We’re going to come up with such a complex system of constraints that no one can actually do anything.”

And of course even JPMorgan has changed in the meantime and I think that’s sort of what’s happened globally.

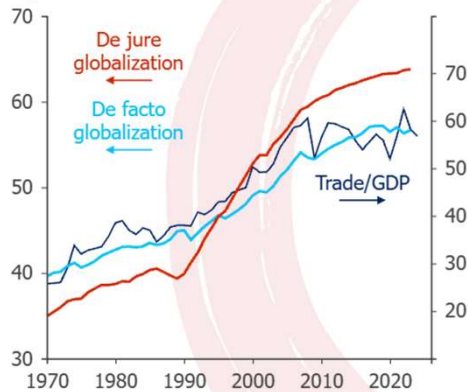
Improvements in global prosperity over the last 75 years have depended on the expansion of the distributed trust model – all those networks of overlapping rules between the WTO, Basel, FDIC, IMF, ECB. Up to a point, it scaled beautifully. You could do business anywhere, trust the framework, rely on the contract, without knowing personally who was on the other side of the trade.

But when those institutions lose legitimacy, distributed trust breaks down and you're back to personal, hierarchical, delegated trust. Connections and power relationships rather than contracts and rules. You have to know your counterparty personally, or know someone who does. And that has very specific implications for how you assess investment risk.

## Trade usually follows trust – and trust is reversing

### Globalization reaching limits

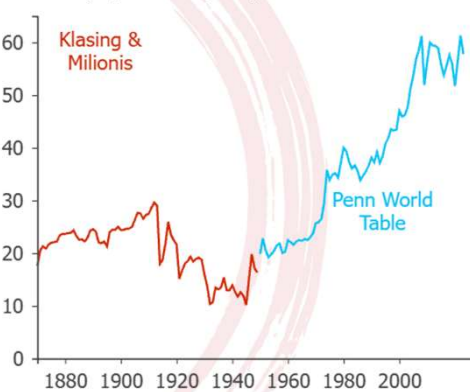
KOF globalization index vs world trade/GDP



Note: KOF index = world average; de facto = actual flows; de jure = policies/rules.  
Source: KOF Swiss Economic Institute, World Bank, Satori Insights.

### This happened once before...

World trade (exports + imports), % of GDP



Note: K&M use own non-PPP GDP estimates. PWT uses PPP-adjusted GDP.  
Source: Klasing & Milionis (1870–1949), Penn World Table (1950–2023), Satori Insights.

## Prosperity rises (and falls) with the radius of trust

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The first place this shows up is in trade. Trade follows trust -- and trust is reversing. De facto measures of globalization peaked around 2008 and have been broadly flat since, and that's even before the most recent round of tariffs.

The right chart puts this in much longer historical context: trade as a share of GDP peaked before the First World War, then collapsed through the interwar period, and it took 60 or 70 years to recover. Hopefully we don't get that again. But Fukuyama's strapline is right: prosperity rises and falls with the radius of trust.

Now I hope we're not going to get the same collapse again and we probably won't unless we really do descend to war as Dalio is arguing. But Fukuyama's strap line is right.

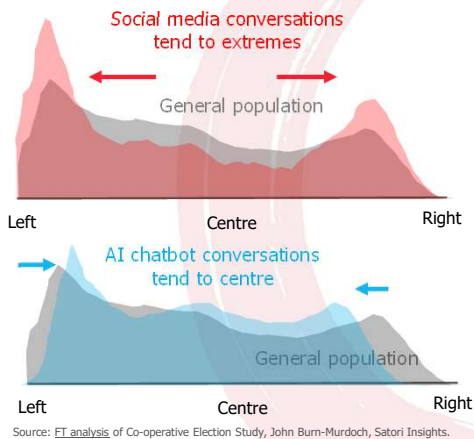
And I'd emphasise: Fukuyama wrote this in 1995, when globalization was accelerating and he was broadly optimistic. He didn't think the expanding radius was inevitable. He thought it depended on institutions. He was right about that too. You can see the same thing in Acemoglu and Robinson.

And there are a couple of things here before we get into the weeds of the investment conclusions.

## AI could in principle help us break out of this doom loop

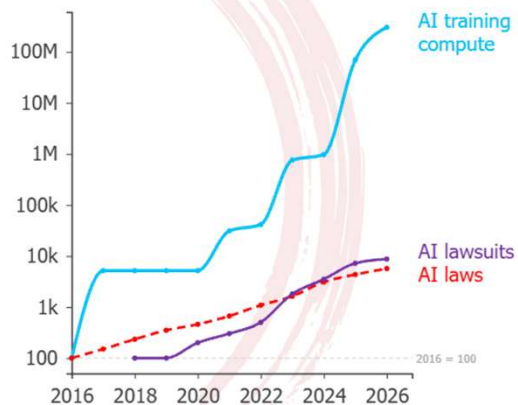
### AI is naturally depolarizing

Political slant scoring of sampled conversations



### Lawmakers are left trailing

Global laws, US lawsuits, 2016 = 100, log scale



## But AI is itself pushing the boundaries of extra-legality

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AI is interesting here because in principle it's actually depolarizing. Again the FT had a lovely analysis: if you look at the data on what happens when people have extended conversations with AI chatbots, those conversations tend to push people towards the political centre. Unlike social media, which thrives on outrage and amplifies extremes, AI -- at least so far -- seems to move people towards the middle. So if we all stop getting our news from Facebook and start asking AI lots of intelligent questions there's at least a theoretical case that it could help rebuild some of that distributed trust.

Unfortunately I think the opposite is just as likely. You can sort of see it in the whole spat between Anthropic and the US government with them being designated a supply chain risk, completely arbitrarily and illegally, but then simultaneously the NSA deciding that Mythos is so amazing at hacking that they're going to keep using it anyway.

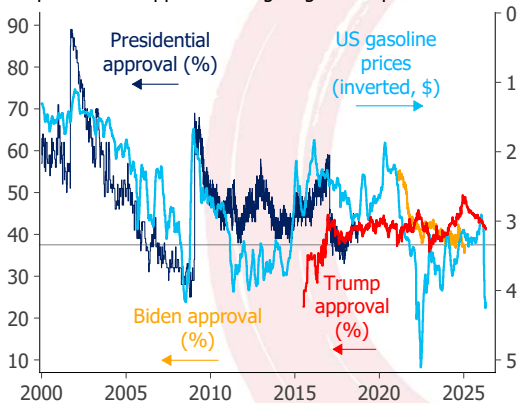
AI's capability itself almost intrinsically pushes at the boundaries of existing legal frameworks, whether that's on something like copyright or whether it's on autonomous drone warfare. And AI is advancing far faster than lawmakers can keep up. We don't even have regulatory frameworks for the capabilities that already exist, let alone the ones coming.

AI is simultaneously a potential solution to the doom loop and one of the biggest sources of new extra-legal risk we have.

## All these circular loops make markets the main regulator

### Pain at pump = pain in polls

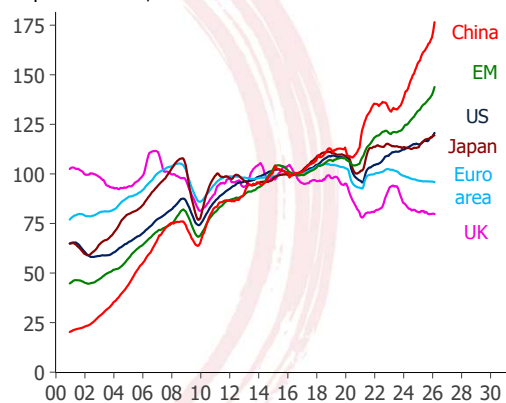
US presidential approval rating vs gasoline prices



Source: UC, RCP, University of Michigan, Macrobond, Satori Insights.

### But some pain is self-inflicted

Export volumes, 2016=100



Source: CPB World Trade Monitor, Macrobond, Satori Insights.

## But there are times when politics simply dominates

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So finally at this point we can start to come back to markets. Markets themselves have the potential to be an important circuit breaker.

You can see it in the link between petrol prices and presidential approval ratings in the US: one of the main reasons Trump's popularity is falling is because gas prices have risen – and actually they make it look like his popularity should be much lower still. It may or may not be enough to make him blink on Iran before the midterms.

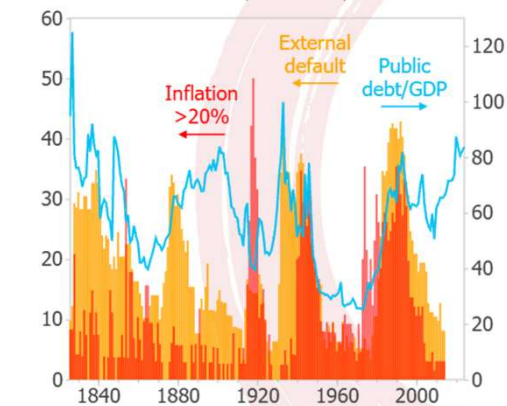
But at the same time, as we've seen in the UK with Brexit and the UK's subsequent export performance, sometimes the fact that something is obviously economically stupid isn't enough to turn the political tide.

There are times when the politics simply dominates.

## Dalio is again an excellent guide

### More debt usually means more defaults

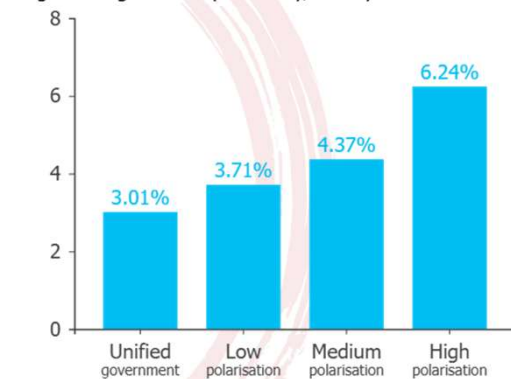
Default and inflation share; total debt/GDP



Sources: Reinhart & Rogoff (2010, 2011); IMF World Economic Outlook (2024).

### Polarization drives defaults

Avg sovereign default probability, % of years



90 countries, 1960–2008. Unified = good institutions or zero polarisation. Polarisation = weighted std dev of ruling party ideologies by legislative vote share. Source: Qian & Roch (2024). Satori Insights.

## Debt, polarization, inequality and declining great power: the four warning signs

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So what do we actually do against this backdrop of lawlessness? Ray Dalio has been the most outspoken on this point. He has this great line where he basically says you can only do three things against a backdrop of extreme polarization: pick one side or the other and fight like crazy; keep your head down and hope nobody notices; and run away.

That all sounds a bit extreme, especially with his argument that we're sliding towards World War, but it does fit with his framework. The way I like to describe it is that there are four historical warning signs – high debt, high polarization, high inequality, and the decline of an old great power and rise of a new one – and it seems pretty clear we're deep in the middle of all four.

The snag with analyzing all this is it tends to involve experiences none of us have had in our lifetimes. And yet the quantitative evidence is increasingly clear that things like high polarization really do almost double sovereign default probabilities.

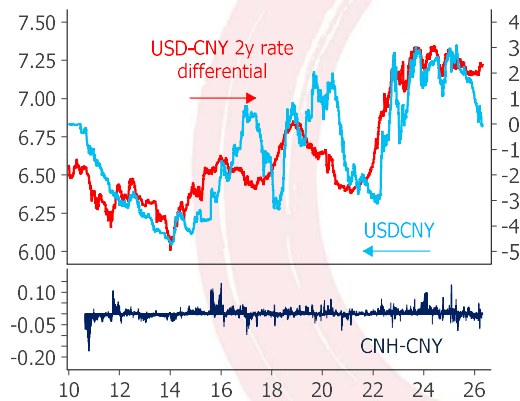
There was a lovely paper by Qian & Roch on this a couple of years ago.

Now none of this means everything blows up tomorrow. But it does mean we need to try to imagine the tails before they actually happen, and that the risk premium on long-dated govies in particular should be higher than it currently is.

## China looking ever more like a bastion of stability

### \$, not CNY, now require a rate premium

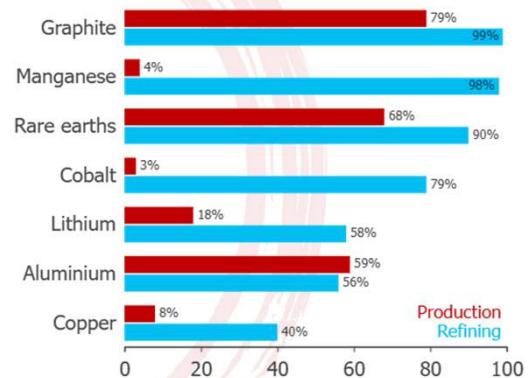
FX vs nominal rate differential and offshore yuan premium



Source: Macrobond, Satori Insights.

### China controls the chokepoints

Share of global mineral supply chain, 2023, %



Source: USGS Critical Minerals Atlas; UNCTAD Digital Economy Report (2024); via MUFJ *Generational Change*, Oct 2025. Manganese-Copper refining: approx.

**(Not that you'd trust them either, mind!)**

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Now one side effect of all this is that China increasingly looks like a beneficiary – especially given the closure of the Strait of Hormuz, but even in general.

Dollars may look attractive vs other currencies based on rate differentials and the rate outlook, but especially vs renminbi it increasingly looks as though it requires a rate premium just to hold its value. That's a meaningful reversal from most of the last decade.

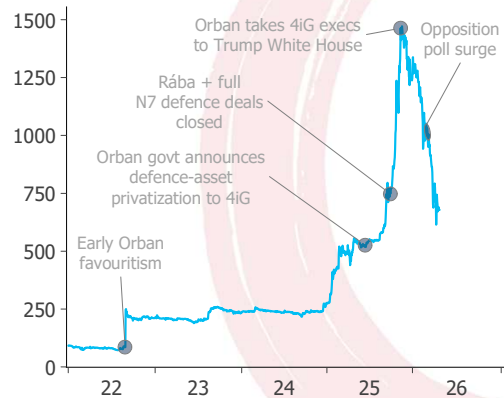
Similarly in terms of supply chain chokepoints, I'm sure you've seen these points before, but China controls 79 to 99 percent of graphite and manganese processing, 90 percent of rare earths. These are the minerals you need for batteries, electric vehicles, and defence systems. This is a major reason Trump more or less had to back down on tariffs against China.

You don't have to endorse the Chinese political system to recognize these are real and substantial leverage points. In a world of connections and power rather than rules and contracts, China holds a lot of those connections.

## Lawlessness simply means more gap risk – in both directions

### When personal connections count

4iG Nyrt equity market capitalization, HUFbn



Source: Bloomberg, Macrobond, Satori Insights.

### Words can prove expensive

Alibaba equity market capitalization, \$bn



Source: Bloomberg, Macrobond, Satori Insights.

## Amid lawlessness, connections deliver windfalls and wipeouts – overnight

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But it's the connections here that really count. And that makes for a really difficult investment implication. It's not quite the case that corruption and political sycophancy pay better than anything else, but it's pretty close to it.

Connections deliver windfalls and wipeouts -- and they deliver them overnight, with no warning.

I've tried to illustrate it with 4iG in Hungary and with Alibaba in China – with the right political connections, your stock goes up tenfold, but if you or your chosen leader fall from grace then it gets decimated. That's why US CEOs are tiptoeing around what they say about Trump: they're all terrified. And when it happens again, it does so really very quickly and normal historical and value-driven investment rules in both directions don't apply.

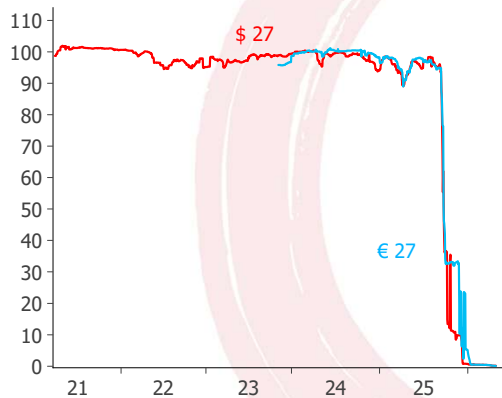
Again you come back to the Dalio principles: choose one side or the other and hope to make a fortune, keep your head down, or run away. But even the choosing one side or the other is tough if you're simply trying to trade bitcoin or oil and haven't actually got access to inside information.

These aren't aberrations. In a world of connections and lawlessness, this is the pattern. Gap risk is everywhere and it's underpriced. Risk premia are priced for rotation within a stable system. They are not priced for the system itself being up for grabs.

## "Safer" investments are ironically often particularly at risk

### First = little protection against fraud

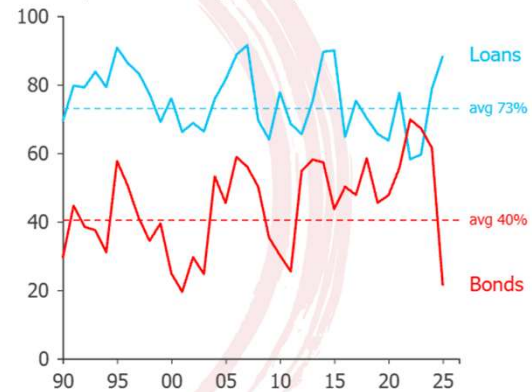
First Brands 1st Lien guaranteed senior secured loan price



Source: Bloomberg, Satori Insights.

### Recoveries at risk

Recovery rates following default, % face value



\* 2025 data through September.  
Source: S&P Global Ratings, Satori Insights.

**The very contracts designed to provide investor protection are at greater risk of abuse**

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So that takes us to our next conclusion. At least in principle over the long term, this is really bad for credit and for bonds. Ironically, the investments designed to be the safest are often the most exposed to exactly this kind of risk.

So again I tried to illustrate it with examples.

Look at First Brands: first lien, guaranteed, senior secured -- the most protected type of loan you can own -- trades down to 27 cents on a fraud. Maybe the closest parallel to lawlessness as an investment risk is actually fraud: recovery goes suddenly to zero, with no warning, and there's nothing in the contractual structure that protects you.

Even when you don't get fraud everywhere, the process of pushing the system to its limits, the exploitation of LMEs, does tend to suppress defaults but reduce recoveries.

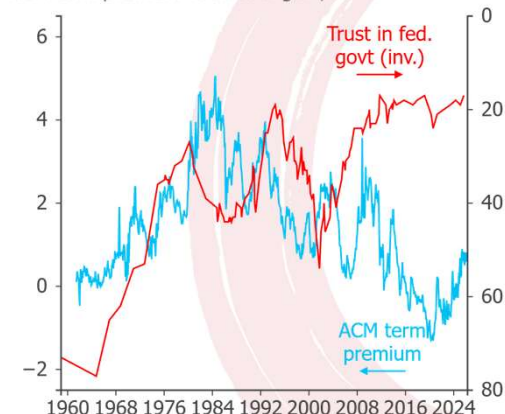
Frankly I'm surprised loan recoveries haven't dropped in the same way as bond recoveries and in time I think they will. In a world where covenants have been stripped out and private equity controls the board, creditor protections are worth less and less in practice.

The label says 'senior secured', but the substance may be something quite different.

## If bonds are most at risk, govies deserve a special mention

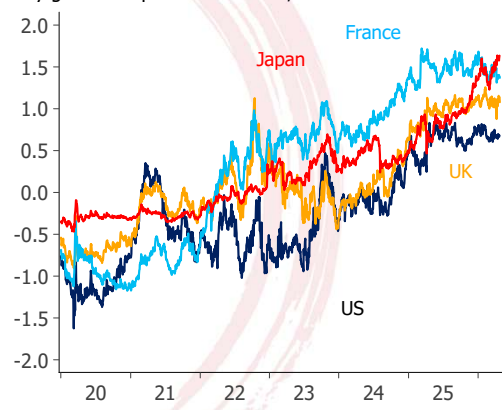
### As trust fell, the premium rose

ACM term premium vs trust in govt, %



### Increases can prove contagious

10y govt term premium metrics, %



## Short ends attractive; long ends not

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That same principle applies even more so when it comes to govies.

Again, the actual defaults are so rare that it's hard to trade, but the risk we want to protect against is of discontinuities and rising premia. Term premia are rising but on many metrics still look way too low, especially given the lawlessness backdrop and of course the fiscal burden.

Probably as close as we get day-to-day is rising term premium. Term premia are rising on many metrics and in Japan in particular you can start to see investors freaking out.

And I think in time we will get more increases: that's why steepeners are a super popular trade even if it's a little bit crowded in the near term.

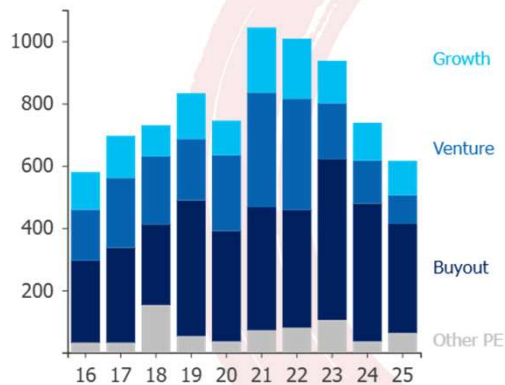
That's what investors in Japan are starting to freak out about, and frankly I'm surprised term premia in the US haven't increased more as well. If we really did have a credit crisis in one market, the fiscal and political situations are sufficiently similar that you'd expect it to spread elsewhere as well.

To my mind, short ends look attractive, especially where hikes are priced in; long ends don't.

# Investors' shift to alternatives mirrors voters' shift towards strongmen

## PE enthusiasm waning

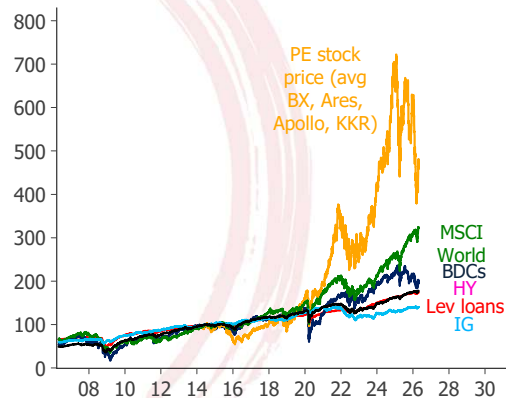
Global PE fundraising by subclass, \$bn



Excl. secondaries, FOFs & co-investments; incl. PE turnaround & unspecified strategy funds.  
Source: Preqin | McKinsey Global Private Markets Report 2025

## Many previous run-ups reversing

Total return indices, Jul14=100



Source: Morningstar, Bloomberg, Cliffwater, Macrobond, Satori Insights.

## Initial enthusiasm giving way to disappointment

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The other big trade investors have been doing is piling into alternatives – but it's interesting that at least when it comes to private credit and private equity, they now seem to be having second thoughts.

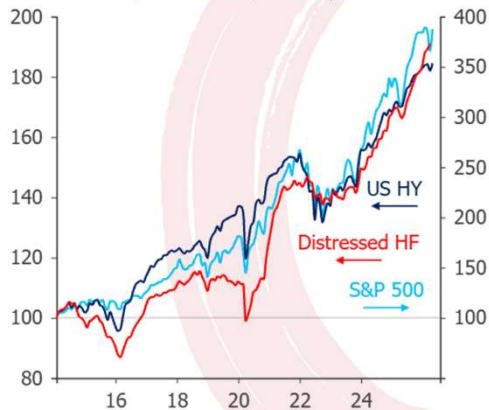
It's a bit like the way voters have looked at the political situation and said, "We don't like any of these – let's go for a strongman instead." But then their initial enthusiasm and the genuinely good returns private equity had for a long time are gradually leading to disappointment as people recognize the extent to which they benefited from low rates and leverage.

I'm not too concerned about the outflows feeding on themselves and bringing the system down – I actually think the gating works relatively well – but nor am I super-convinced by the value proposition. If the investment backdrop is windfalls for those with the right connections, and wipeouts elsewhere, private markets aren't offering diversification so much as more gap risk in a different wrapper. I'd rather own hedge funds and even they are often struggling in this environment.

# An uncertain world means investors ought to be craving convexity

## Craving convexity? Distressed beats HY

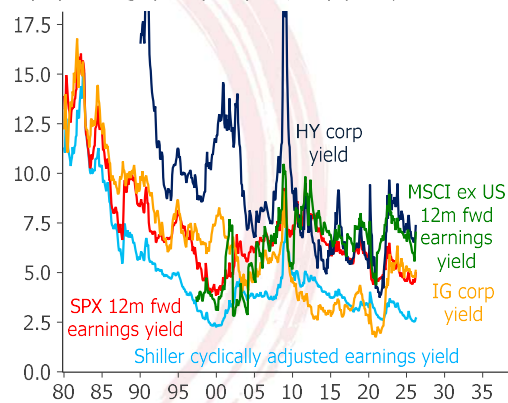
Jan 2014 = 100, total returns, monthly



Source: Bloomberg, HFR, Satori Insights.

## Equities probably beat credit

Equity earnings yield (1/PE) vs \$ corp yields, %



Source: Robert Shiller, MSCI, Bloomberg, Macrobond, Satori Insights.

**Lawlessness erodes the fixed income floor faster than it collapses the equity ceiling**

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Maybe another way of summarizing all this is to say in an uncertain world you ought to be craving convexity. Where can I get runaway upside? And where should I worry about runaway downside?

Almost inevitably, I think that favours equities over credit. It probably favours distressed over straight high yield. There's a whole separate story about equity valuations and elevated earnings expectations which maybe we'll come to in the Q&A, but I do think there's an argument that lawlessness erodes the floor on fixed income faster than it caves in the ceiling on equities.

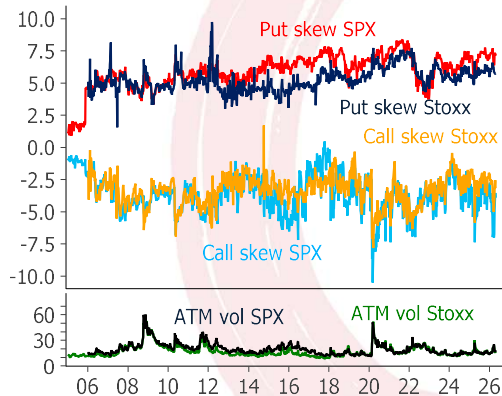
Equities can actually do quite well in a lawless world, especially if they have real assets, pricing power, or the right connections. Companies adapt, they can reprice, they can pivot. But fixed income traps you in a fixed contract with a floor that might not hold.

So again it's all a bit of a long-term argument but I think these concerns are very real and they're not going away.

## The obvious source of convexity remains options

### OTM call skew cheap to history

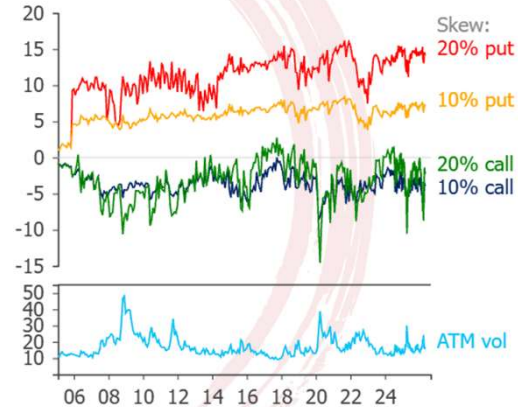
10% 3m equity option skew, %



Source: Bloomberg, Satori Insights.

### It's upside pricing which has cratered

10% and 20% 3m S&P 500 skew, %



Source: Bloomberg, Satori Insights.

## Equity upside is cheap but downside isn't

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An even more obvious source of convexity is options – but I think some look more attractive than others.

Equity upside calls are not quite as cheap as when I published the presentation a few weeks ago, but are still not that far from long-term medians in an environment that potentially has more upside. Conversely OTM puts are close to record levels of expensiveness and I think simply aren't worth it relative to holding extra cash unless you have a very specific short-term trigger in mind.

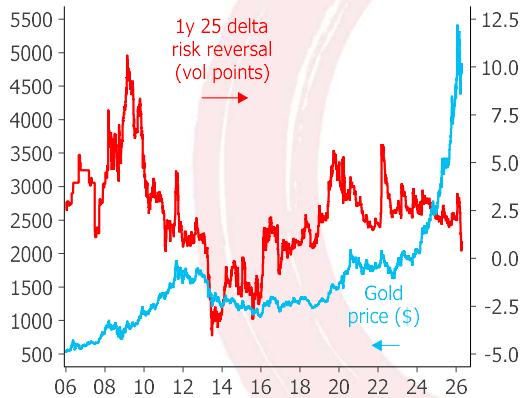
The better plays are probably vol of vol, or equity pairwise correlation trades, as I highlighted in (I think) my 2026 outlook. Both vol of vol and pairwise correlation spiked higher on the initial Iran attacks but have subsequently fallen back.

But so yes convexity through options but depending on how they're priced.

## Given current options pricing, gold is a significant exception

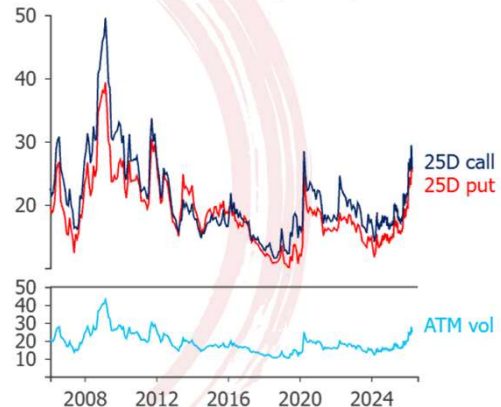
### Gold risk reversals have fallen sharply

Gold options pricing vs spot



### It's puts getting expensive, not calls

Gold 1Y 25-delta call and put implied vol, %



## Conversely in gold, better to hold the underlying

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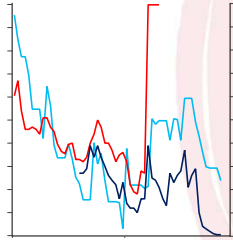
The final thing to say is that while I think calls still look attractive for equities, I'm no longer convinced they do at the moment for gold. I do still like gold a lot and think it offers convexity, but in the underlying rather than in options.

One of the charts I've used in the past is of gold spot prices vs risk reversals, or basically the extent to which people have been buying calls relative to puts – and on gold it's collapsed recently. But unfortunately the reason it's collapsed is not a reduction in people buying calls, but an increase in people buying puts – which basically means that neither look particularly attractive.

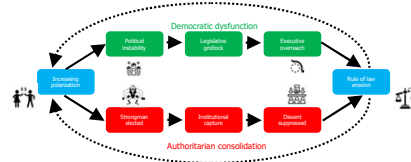
I am conscious that gold has rallied a lot and at some point also has a tendency to drop by extreme amounts. But the scenario where I'd see that happening is really where we move to a new world order following a war or something, or maybe temporarily with prohibitions on its ownership. It just doesn't feel like where we are today, where investors of all types are keen to protect the gains they have on financial assets from the slide into lawlessness, and gold still looks like one of the most obvious ways to do so.

## Conclusion

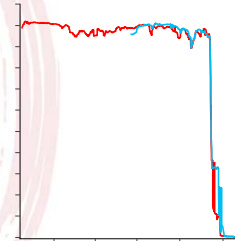
**Short term driven  
by war and whim**



**But slide towards  
lawlessness is structural**



**Stop assuming  
continuity**



**The very lawlessness we want to forget  
is ultimately what will most affect prices**

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Sorry that was long: let's sum up.

The short term is still really hard. I don't think the war gets resolved quickly, I do think that creates downside for risk assets, but it's amazingly hard to call and it's being offset by fiscal and credit effects.

But from a medium-term perspective: the slide towards lawlessness looks structural. It's not just Trump, not just this election, not just the US. It started around 2014, it's global, and it's driven by deep structural forces around government effectiveness and polarization.

What this means in terms of investment is that we need to stop assuming continuity. By the time you've seen the lawlessness shock, it's already in the price. That's hard, but I don't think it's impossible: it favours equities over credit, short duration over long duration, and selected positions in options and correlation space.

We keep wanting to move past the lawlessness, treat it as temporary, hope it resolves with the next news cycle or the next ceasefire. But it isn't going to. The radius of trust is shrinking. And the very lawlessness we keep wanting to forget is ultimately what will most affect prices.

Many thanks for listening – I am now at your disposal for questions.

## Q1. Credit expansion + AI

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- You mentioned credit expansion and monetary factors supporting the rally recently — can you elaborate?

This actually gives me a chance to talk about two things — the credit story, and a parallel point on AI and Claude Code.

I spend a lot of time looking at monetary effects on markets. For a long time those were driven by central banks; then fiscal took over; and what's happened recently is a big expansion of credit. Initially that came from the other-financial sector in the US — essentially banks lending to private credit. More recently, just over the past couple of months, we've seen a couple of hundred billion dollars of expansion into non-financial corporate lending too.

The way I think about it: credit expansion is a leveraging up of the system. It doesn't have to flow into risk, but it *is* being recycled into risk — you can see it in the equity fund flows. So risk is better-supported now than for much of 2025, when the bull case rested on rotation, exuberance and fiscal alone. Even with fiscal a little weaker into US tax season, the credit expansion has offset the drag and looked outright bullish.

When we try to identify what's behind it, much of it links back to the hyperscalers — the power needs of AI data-centre expansion. There are risks around that, as we're starting to see in corporate earnings, but in general it looks relatively durable. That's one of the things that keeps me cautious about simply concluding 'markets are too expensive — go short.'

The reason this connects to AI and Claude Code: I haven't published this note yet [video replay features additional screen share], but I asked Claude Code to run the analysis with a bit of prompting — it ran the numbers, did the charts, and wrote it all up, all staggeringly quickly. I've been using it heavily for about a month and I think everyone should be. Aside from lawlessness in the long term, this is probably the single biggest factor in the entire outlook. My conversations now divide into two — those with people not yet using Claude Code, where I evangelise, and those with people already using it, where we compare notes. It is phenomenally powerful and, in the longer term, hugely

disinflationary not only for software but for financial analysis and just about everything else. Staggering how good the analysis is.

## Q2. Gold

---

- Gold prices have been struggling recently and plummeting today — any comment?

I haven't looked at today specifically, but I had some of this in the presentation.

In general, gold has been driven mostly by ETF flows plus the Shanghai futures exchange — China buying and selling has been important. Over the longer run those flows have been very supportive. Since the Iran attacks the dynamics have shifted: there has been net selling, but it's been concentrated in the global ETFs, overwhelmingly dominated by the US ETFs, with some change in Shanghai positioning too.

Maybe those are accelerating, but on the one-week numbers as of yesterday I can't yet see it. Even China positioning, to my mind, isn't as long as all that — it has risen over the last couple of years, but the net long doesn't look extreme. So I hesitate to call this a better entry point — I need to do a bit more work on it — but I still think the structural drivers in gold's favour are highly significant in this environment, and relative to the appreciation in other financial assets the case still looks attractive. If anything alarming were going on I'd be flagging it in the daily analytics packages.

### Q3. Warsh, balance sheet & rate cuts

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- You've written previously about Warsh at the Fed, and balance sheet reduction relative to rate cuts. How has your thinking changed given his testimony and the inflation pressures from Iran?

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I think it reinforces the conclusion. I take Warsh as being sincere, rather than simply kowtowing to President Trump on rate cuts — and I think he's also sincere about balance sheet reduction.

As I read it, and Bessent echoes some of these views, he has the same framework I do: balance-sheet expansion was a major driver of asset price inflation, with ultimately negative political consequences — even if it may have helped Trump — and negative for system stability.

In the piece I wrote comparing the ECB framework — [We need to talk about Kevin \(and Isabel\)](#) — I argued there's a reasonably straightforward solution US commentators haven't really focused on: shift back from a supply-driven to a demand-driven reserves framework. You change the repo mechanism; that lets you shrink the balance sheet a lot further while keeping a backstop; and that in turn would allow more rate cuts — partly because it is itself somewhat negative for equity markets and risk.

Clearly we're not getting that today. And without it, absent a big sell-off in equities, the inflation picture does make rate cuts much harder. I'd be really surprised if Warsh were pushing for cuts now just on the productivity gains argument from AI, unless we got a meaningful change in the employment picture.

In terms of the complete package: if you can persuade people to do the balance sheet reduction, that facilitates the rate cuts; in turn maybe Trump is happy — though we might not be, if it's bad for the equity market. So the message reinforces what's in my notes, but it now becomes contingent on the balance sheet reduction, rather than the rate cuts coming first and the balance sheet reduction following.

I'm conscious we're now close to the hour — in that case we're going to leave it there. Replay will be out in a couple of days — best of luck.