AozoraStep

Equity Turnarounds & Special Situations

Love the business we invest in, but don’t fall in love with the business

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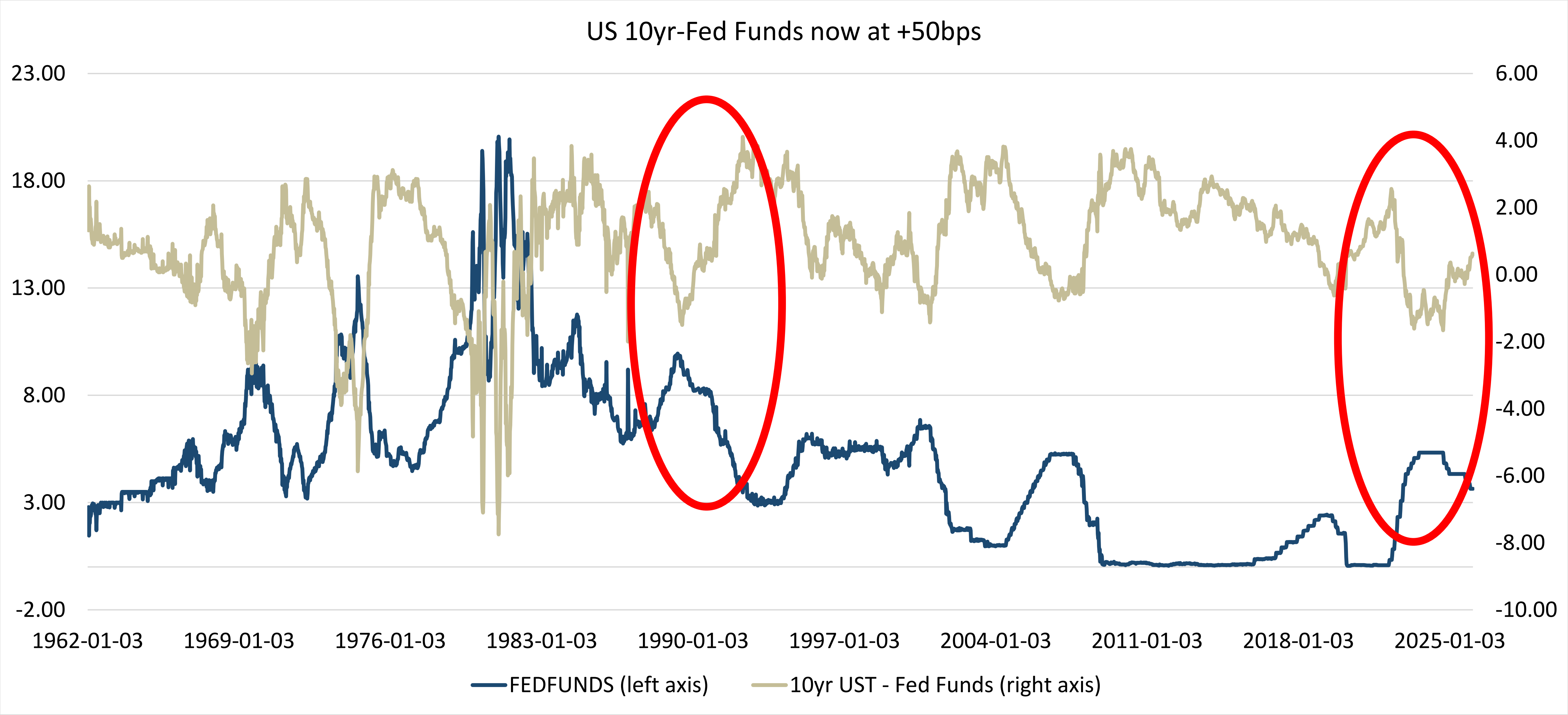
WHY THE FED SHOULD CUT RATES NOW

THE 1990 ANALOGY: RATES & INFLATION

THE 1990 ANALOGY: RESTRICTIVE INTEREST RATES

Source: https://fred.stlouisfed.org/series/DFF , US urban price change

1990 ANALOGY: RATE CUTS ARE AHEAD?



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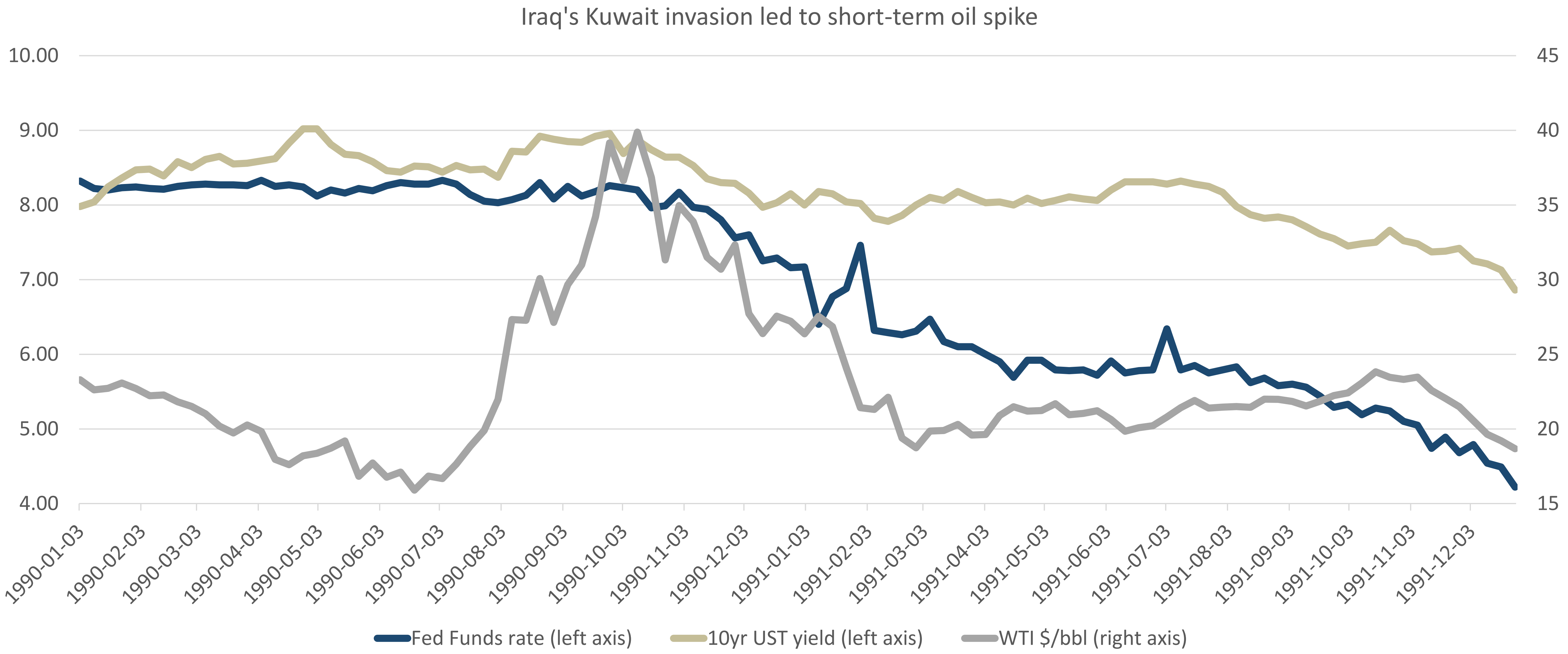
Source: https://fred.stlouisfed.org/series/DFF , Market yield of 10yr UST, proprietary models

THE 1990 ANALOGY: SHORT-TERM OIL SPIKE



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Source: https://fred.stlouisfed.org

THE 1990 ANALOGY: INTEREST RATE CUTS

1990 interest rate and yield curve changes

Date	FEDFUNDS	10yr UST - Fed Funds
1990-04-18	8.27	0.56
1990-08-15	8.13	0.58
1990-11-28	7.56	0.73
1991-01-09	6.40	1.78
1991-04-17	5.69	2.31

Today's interest rates and yield curve changes using 1990/91 changes

Date	FEDFUNDS	10yr UST - Fed Funds
2025-12-19	3.64	0.51
2026-04-17	3.50	0.53
2026-07-31	2.93	0.68
2026-09-11	1.77	1.73
2026-12-18	1.06	2.26

Source: https://fred.stlouisfed.org/series/DFF , Market yield of 10yr UST, proprietary models

THE 1990 ANALOGY

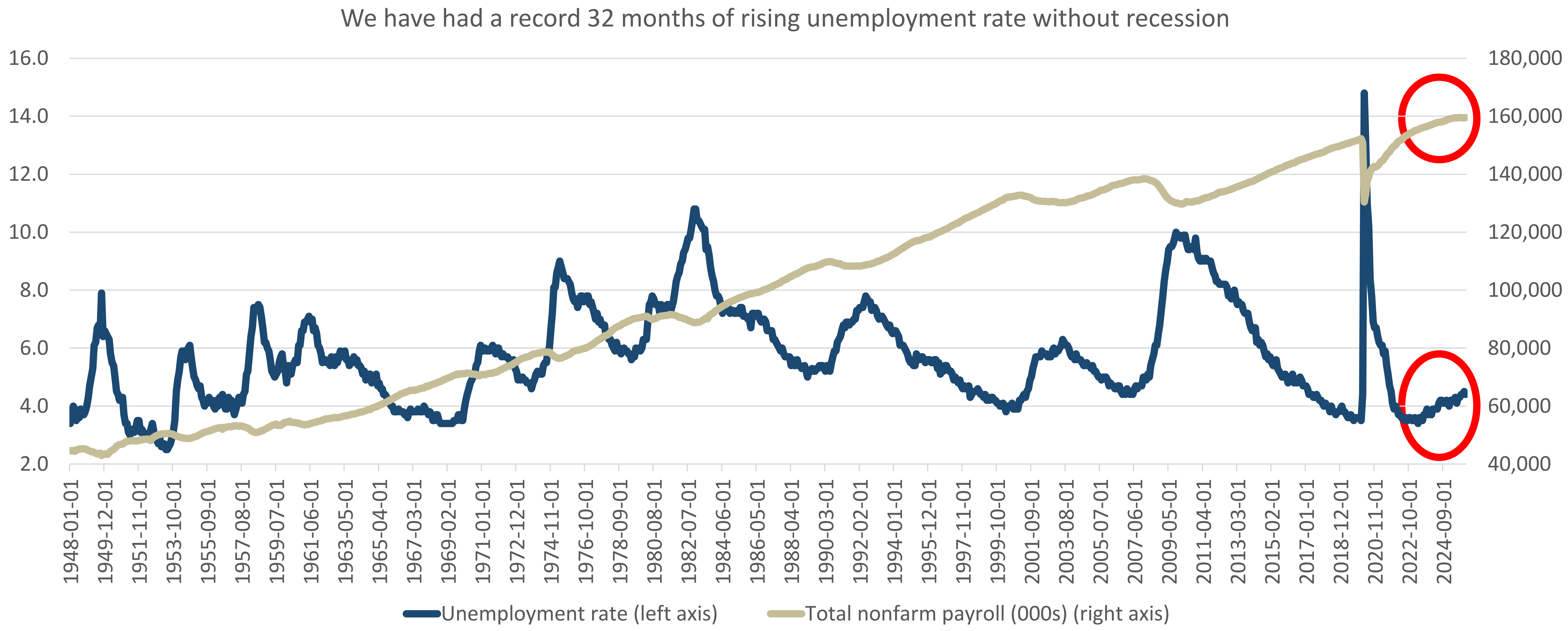
TAKEAWAYS

What happened in 2025 was extremely unusual. We came out of the longest yield curve inversion ever recorded*, and the Fed suddenly stopped cutting interest rates. Then, in the second half of 2025, the Fed began cutting rates again. This frequence of events has only happened once before: In 1990. However, back then, the reason for not cutting earlier was the invasion of Kuwait by Iraq, which caused a short-term spike in oil prices. This has not happened this time – we only had Trump being elected and Liberation Day, and the resulting spike in inflation expectations scared the Fed***. In my opinion, the Fed got it wrong all the way yet again, which could result in panic in the months ahead.**

Source: *https://www.aozorastep.com/US%20yield%20curve%20history.pdf, **https://fred.stlouisfed.org/series/DFF, ***https://tradingeconomics.com/united-states/michigan-5-year-inflation-expectations

THE DUAL MANDATE: EMPLOYMENT

RISING UNEMPLOYMENT, NO JOB CREATION



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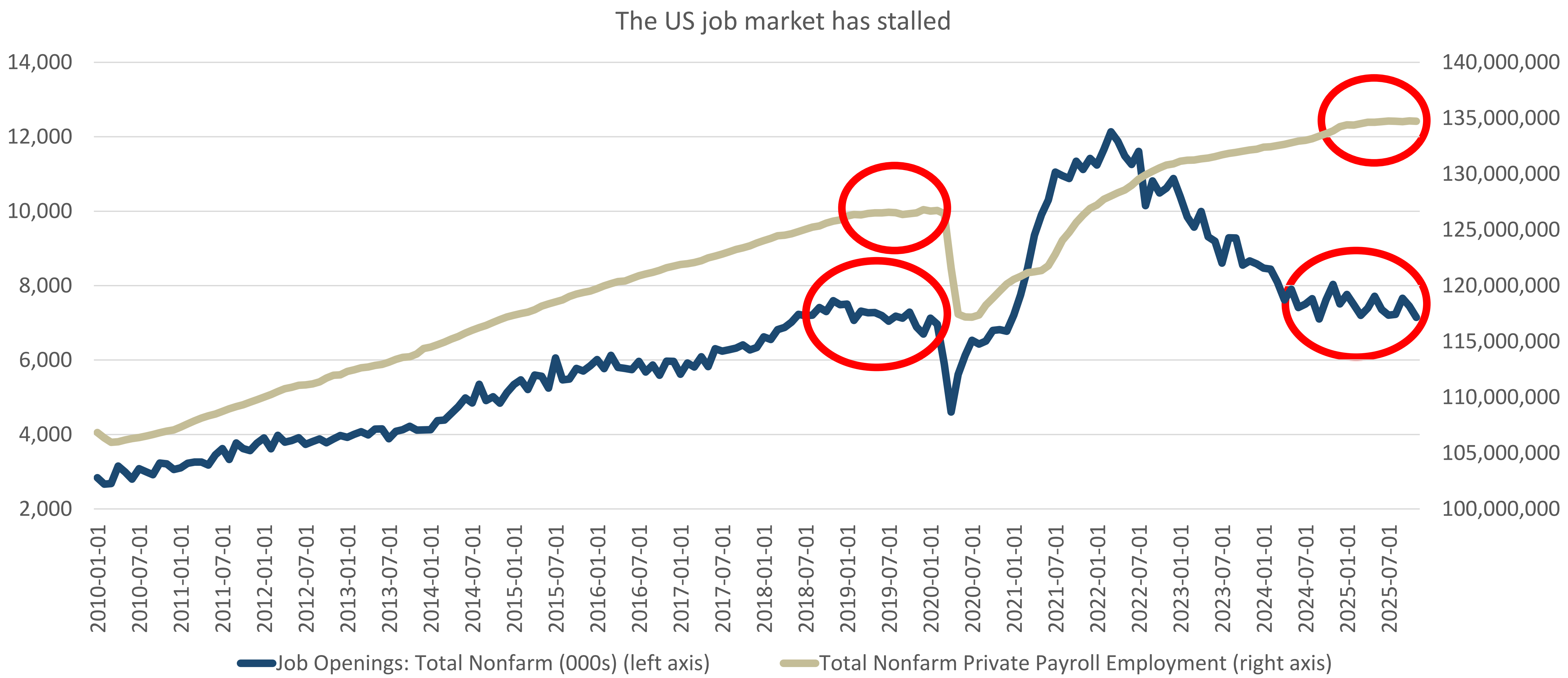
Source: https://fred.stlouisfed.org/, unemployment rate, nonfarm payrolls all employees total

RISING UNEMPLOYMENT, NO JOB CREATION



THE DUAL MANDATE: EMPLOYMENT

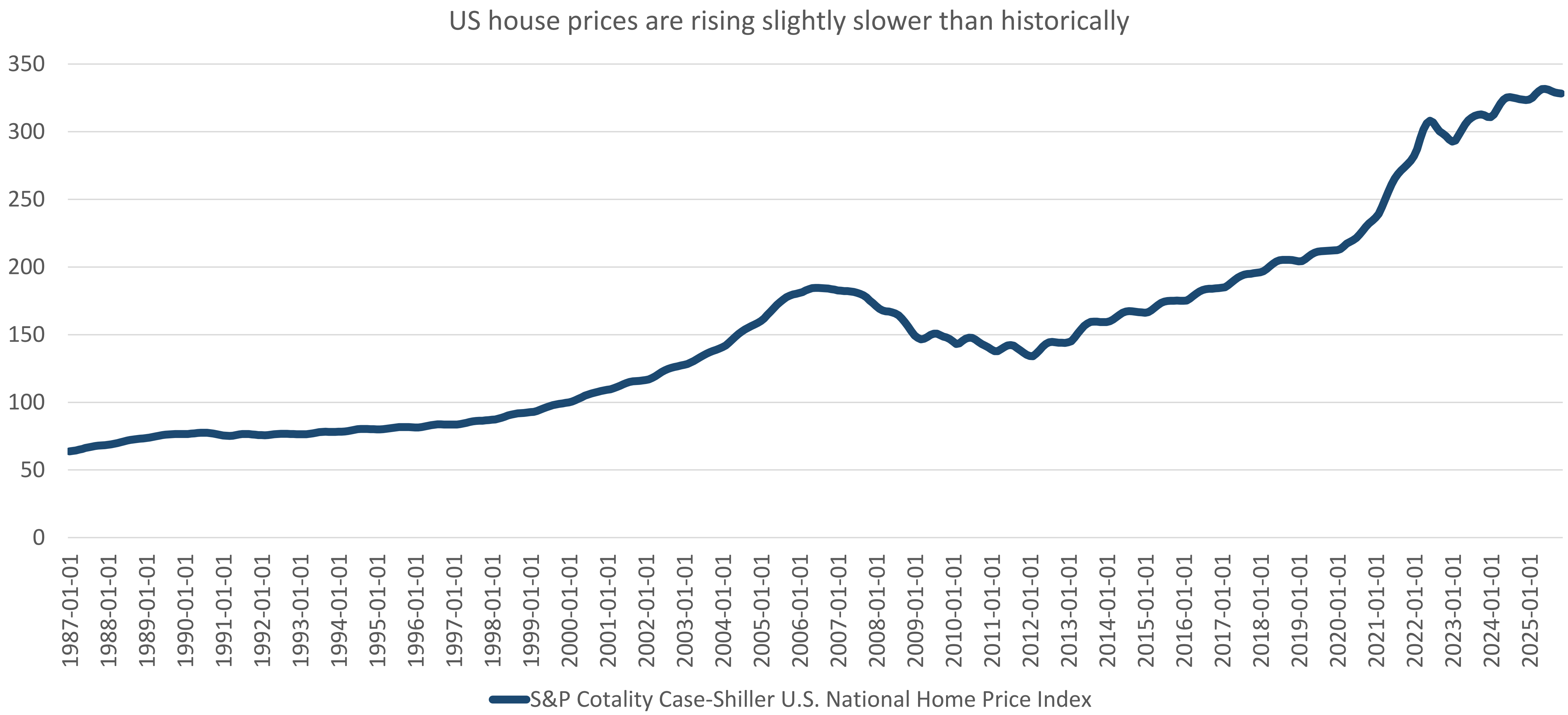
TAKEAWAYS

Policy makers have been telling us all year long that the labour market in the US is balanced and does not warrant interest rate cuts. And yes, one might argue that unemployment at 4.4% is solid. But what's unprecedented is that this relatively low unemployment rate has been climbing for over 32 months without causing a recession*. Nonfarm private payroll growth has stalled since Liberation Day*, jobs openings have not climbed (or fallen) since September 2024**. This has only occurred once before: During Trump's first term ahead of Covid. The risk of a major crisis in the job market is therefore extremely high purely based on historic movements of the above mentioned variables.**

Source: *https://fred.stlouisfed.org/series/UNRATE, **https://fred.stlouisfed.org/series/ADPWNUSNERSA, ***https://fred.stlouisfed.org/series/JTSJOL

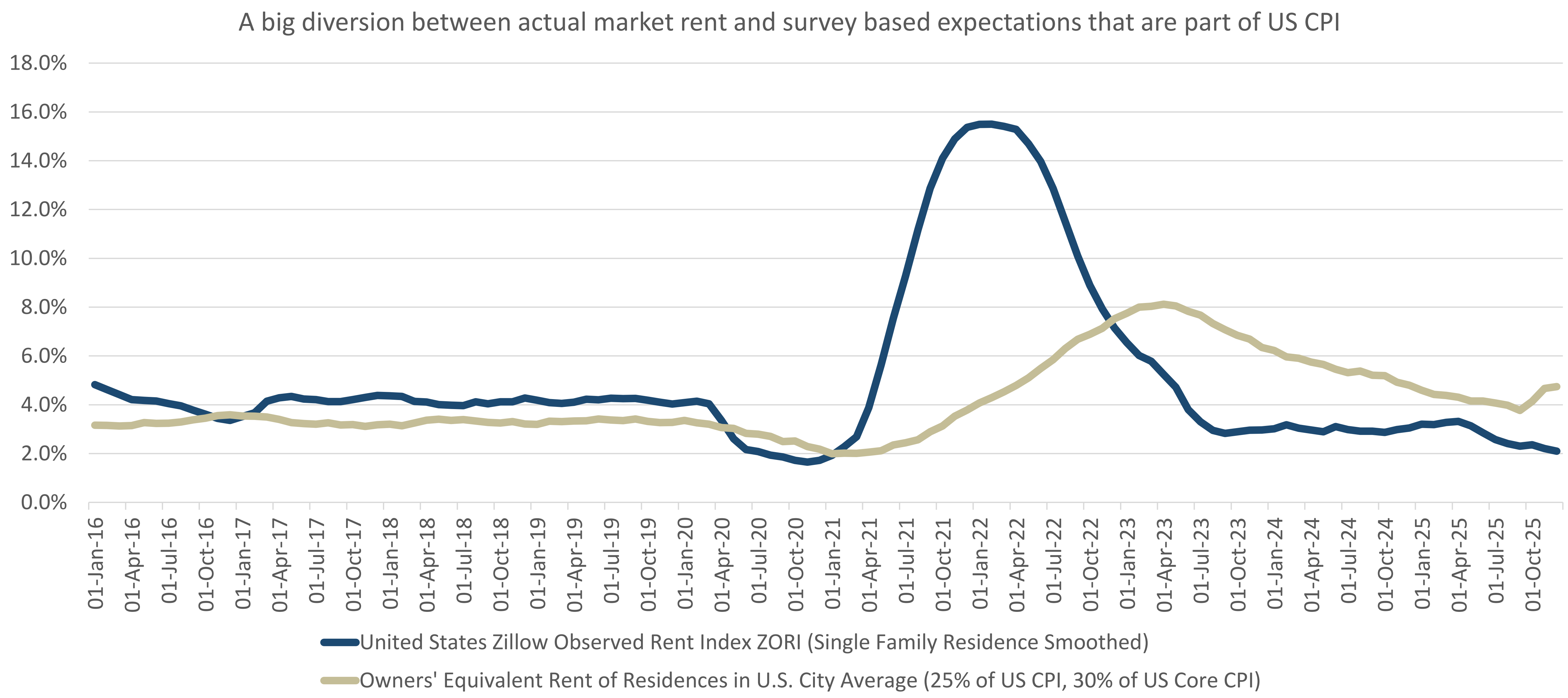
WHERE IS THE INFLATION?

HOUSE PRICES ARE RISING SLOWLY



Source: https://fred.stlouisfed.org/series/CSUSHPINSA

HOUSE RENTAL PRICES ARE RISING VERY SLOWLY, TOO



THE LARGEST PART OF US CPI IS BASED ON HOW SOMEBODY ANSWERS A QUESTION

2. What explains the difference in relative importance between rent and OER? ▼

The expenditure weight in the CPI market basket for OER is based on the following question that the Consumer Expenditure Survey asks of consumers who own their primary residence:

"If someone were to rent your home today, how much do you think it would rent for monthly, unfurnished and without utilities?"

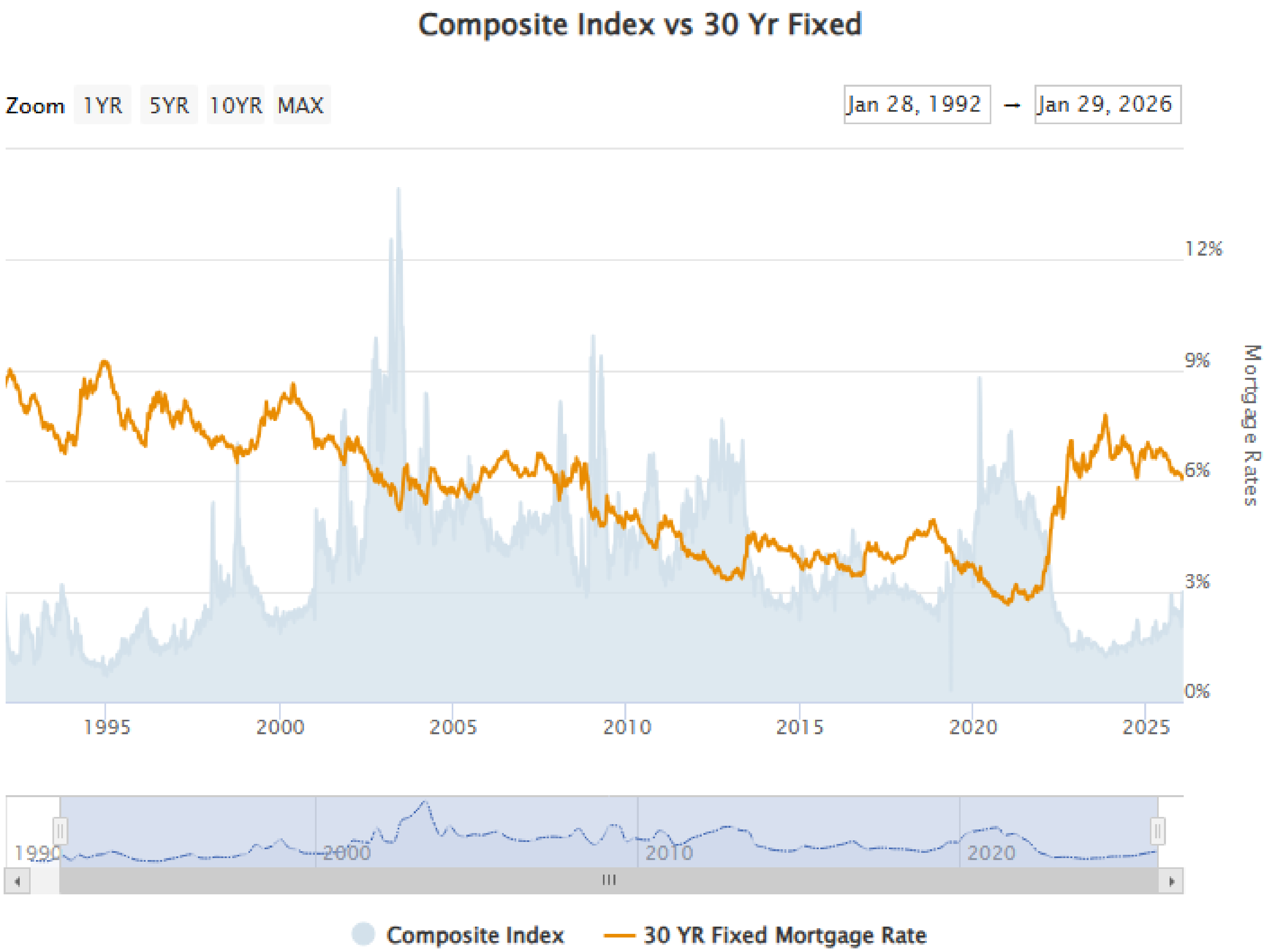
The expenditure weight in the CPI market basket for Rent is based on the following questions that the Consumer Expenditure Survey asks of consumers who rent their primary residence:

"What was your total rental payment for (reference month) for this unit? Include any extra charges for garage or parking facilities, but do not include direct payments by local, state or federal agencies."

From the responses to these questions, the CPI program derives estimates of total annual expenditure on Rent and OER for each of the index populations. The higher relative importance for OER reflects that the average implied rent for homeowners is larger than the average rent of renters, coupled with the fact there are more owners than renters. More information is available on the relative importance page.

Source: https://www.bls.gov/cpi/additional-resources/rent-oer-faq.htm#:~:text=The%20expenditure%20weight%20in%20the,on%20the%20relative%20importance%20page

MORTGAGE APPLICATIONS ARE RISING



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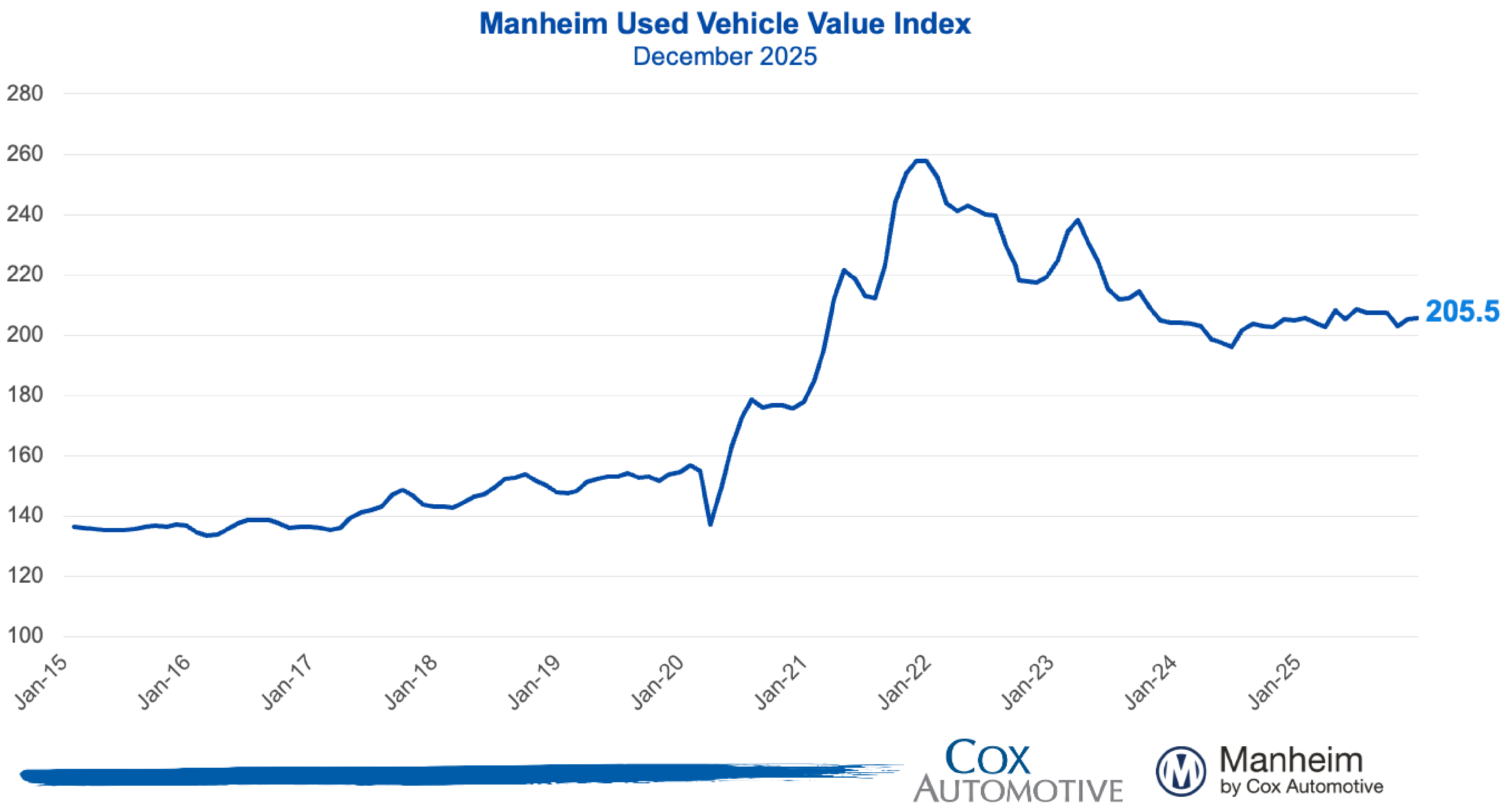
Source: https://www.mortgagenewsdaily.com/data/mortgage-applications

USED VEHICLE PRICES ARE STAGNANT FOR YEARS



LOWER FOOD PRICE INFLATION IS NECESSARY

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Source: https://fred.stlouisfed.org/series/CPIUFDSL/

WHERE IS THE INFLATION

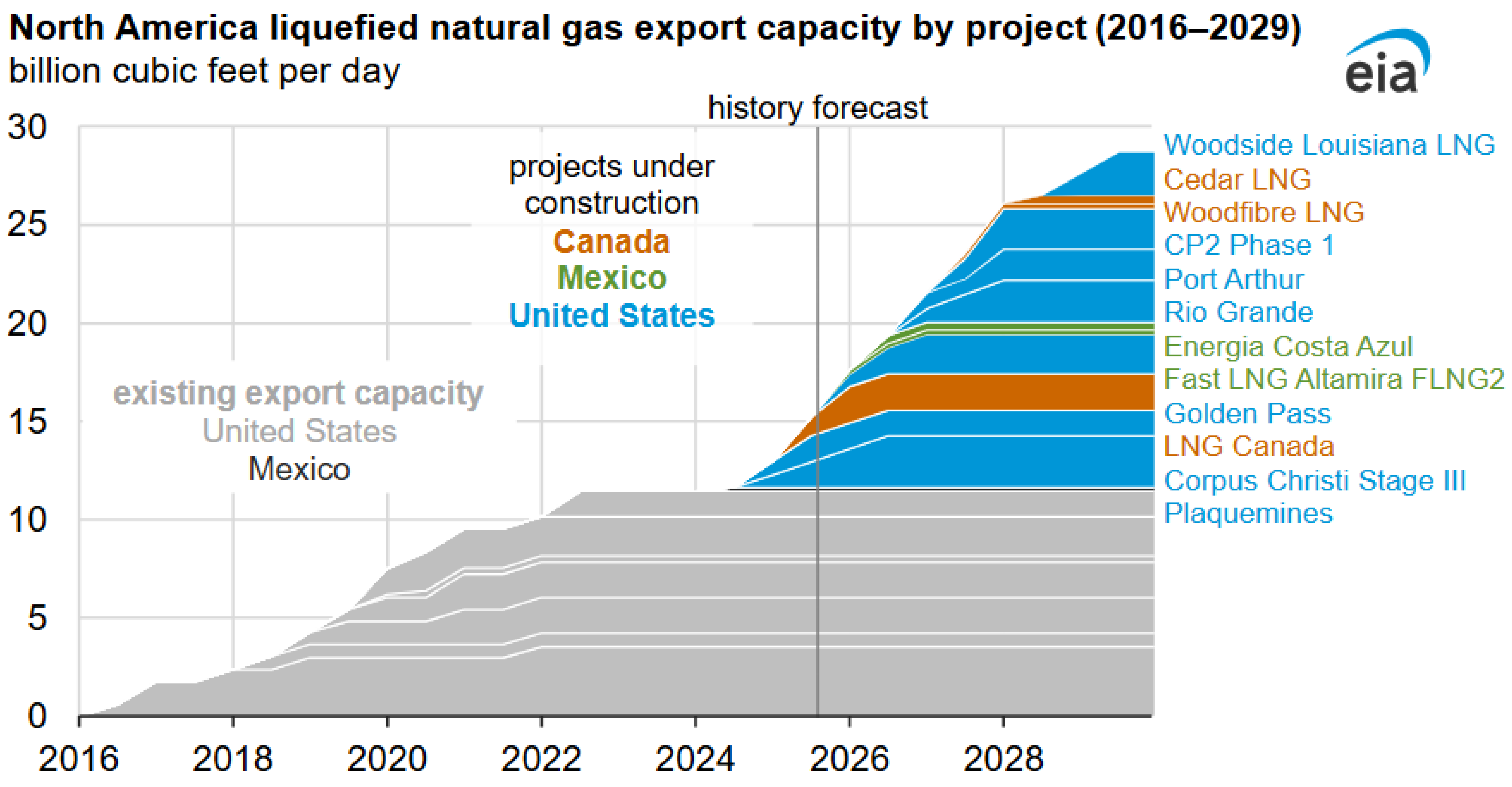
TAKEAWAYS

The answer to the question "Where is the inflation?" is straight-forward: In owners' equivalent rent of residences in US cities* and in food, which combined make up around 40% of US CPI (25% & 13% respectively***). The food component is certainly partly down to tariffs. Food processing companies have slim margins. Hence, any hike in tariffs will nearly be fully passed on to consumers (e.g. Hilton Food Group's seafood business****). However, owners' equivalent rent of residences in US cities is a survey. And this survey has moved in totally opposite directions compared to the Zillow observed rent index***** since October 2025 (i.e. inflation of actually listed rental homes see one of the lowest inflation over the last decade). This is very odd. All other components see very little to no inflation at all: house prices are rising slower than over the last two decades, used car prices haven't moved in two years, and lower rates could reduce mortgage payments via more refinancing.**

Source: *https://fred.stlouisfed.org/series/CUSR0000SEHC, **https://fred.stlouisfed.org/series/CPIUFDSL, ***https://www.bls.gov/news.release/pdf/cpi.pdf, ****https://www.gurufocus.com/term/tariff-score/FRA:FAG, *****https://www.zillow.com/research/data

THE ENERGY OUTLOOK

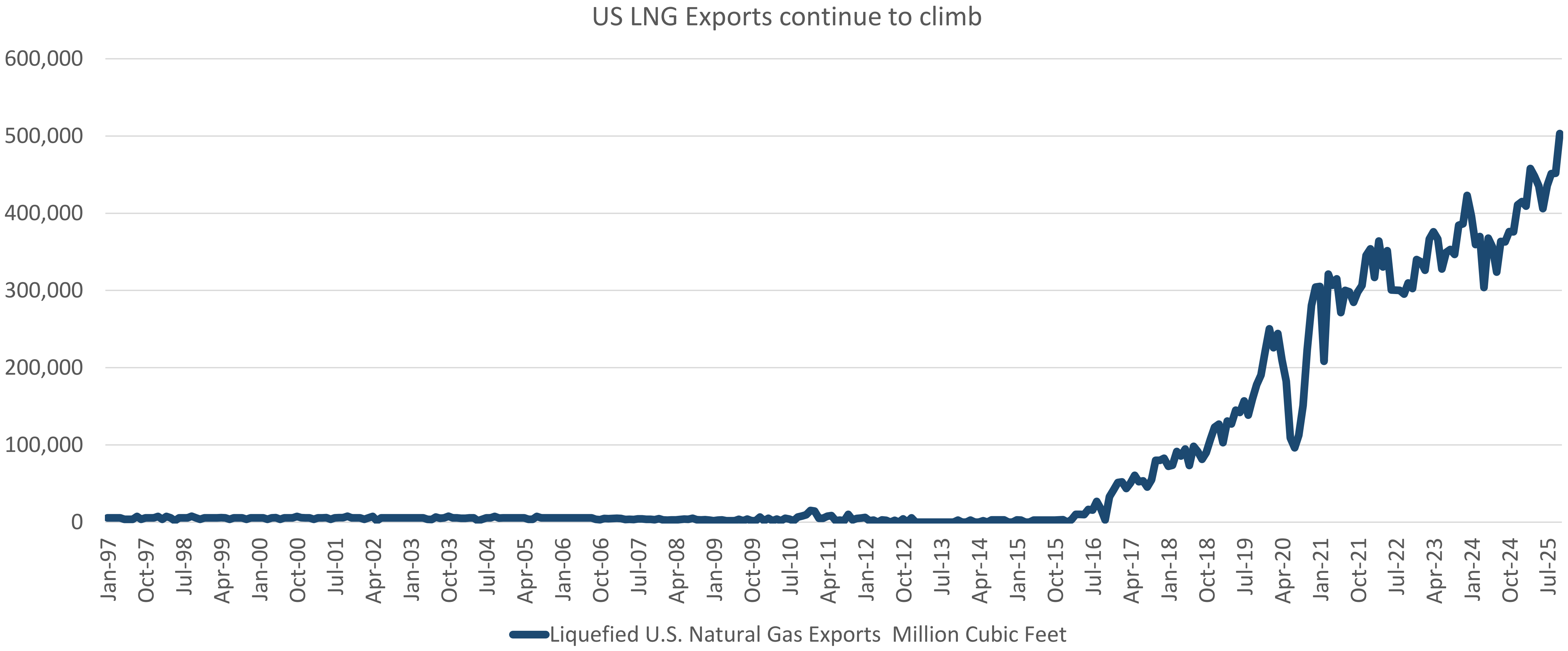
NORTH AMERICA'S LNG EXPORT CAPACITY COULD MORE THAN DOUBLE BY 2029



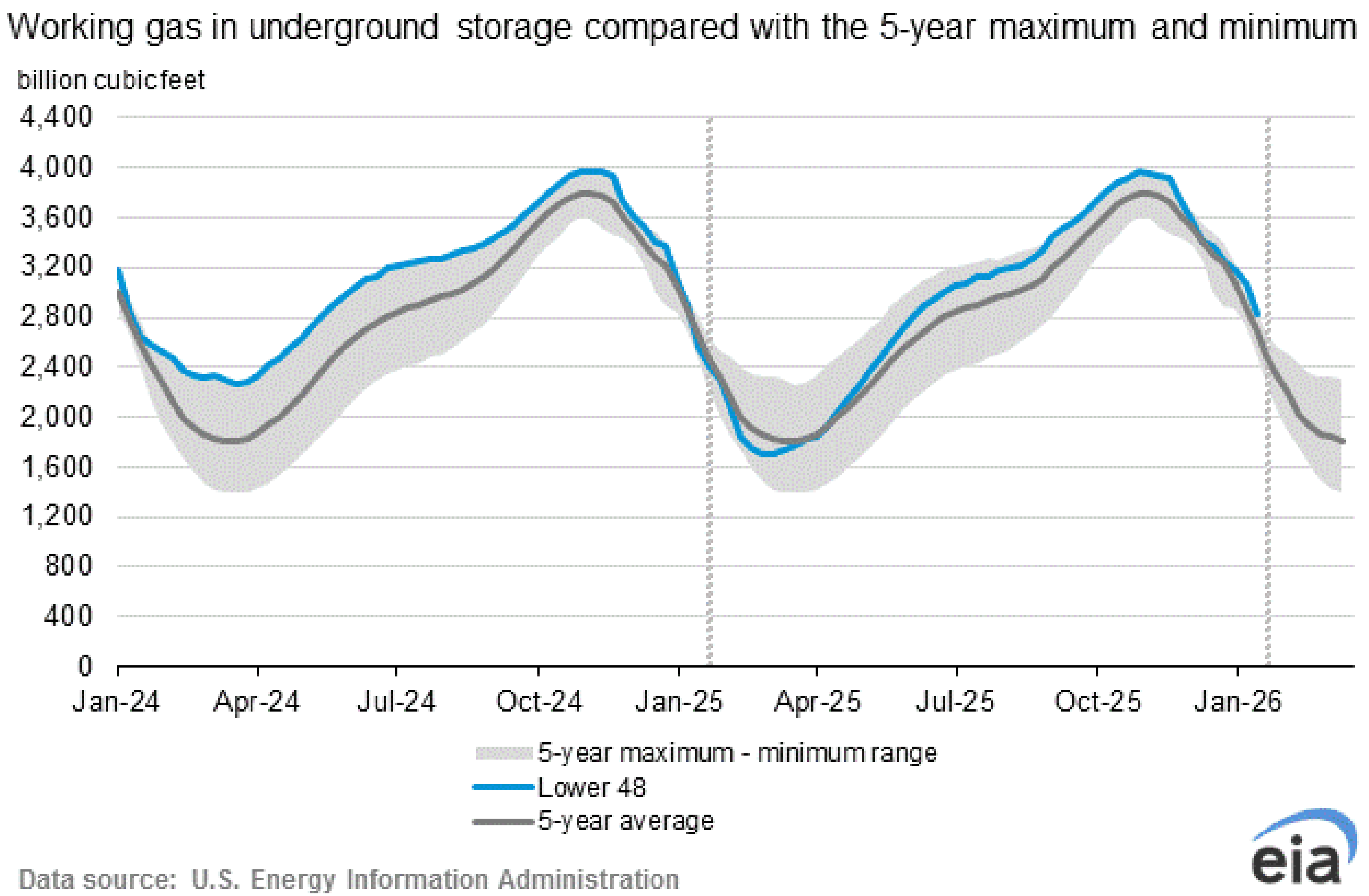
→ **Qatar to add +4.5bcf/day (33m tonnes pa) in 2026, +2.1bcf/day by 2027**

Source: https://www.eia.gov/todayinenergy/detail.php?id=66384, https://qna.org.qa/en/news/news-details?id=0028-qatar-to-up-lng-production-capacity-to-142-million-tons-per-year-by-2030,-says-minister%C2%A0of%C2%A0state%C2%A0for%C2%A0energy-affairs&date=25/02/2024

THE US EXPORTS AROUND 500BN CUBIC FEET LNG PER MONTH (150TWH OR 1,800TWH PER ANNUM)



DESPITE RISING LNG EXPORTS AND COLD WEATHER, GAS IN STORAGE IT AT HISTORIC AVERAGE

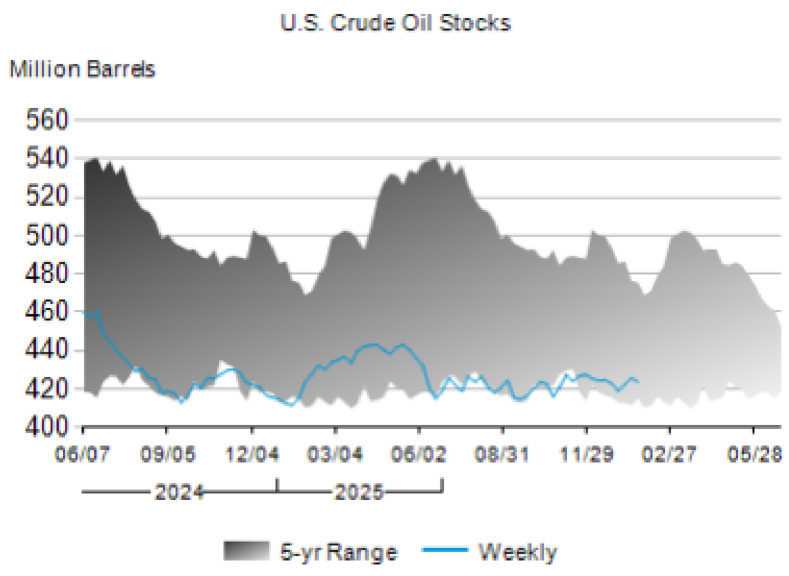


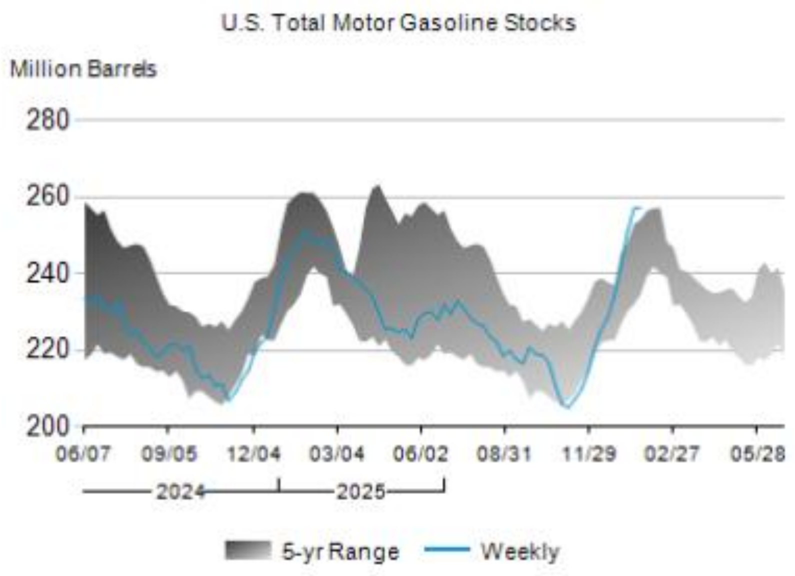
Data source: U.S. Energy Information Administration

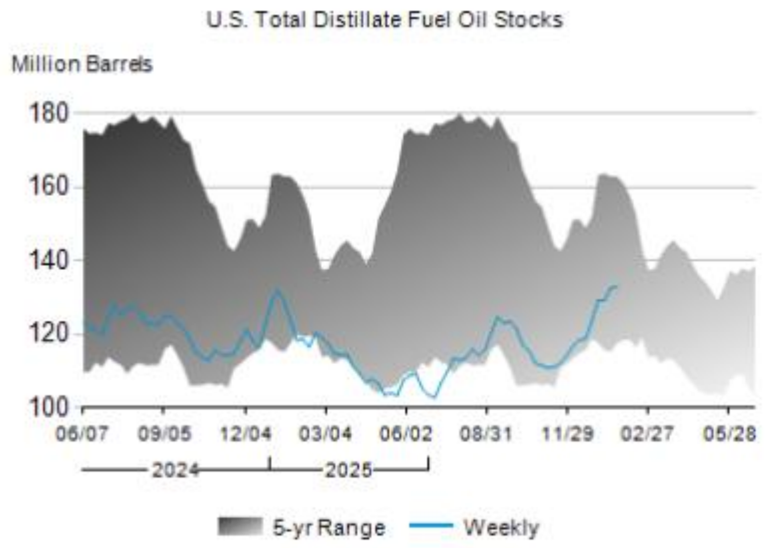
Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2021 through 2025. The dashed vertical lines indicate current and year-ago weekly periods.

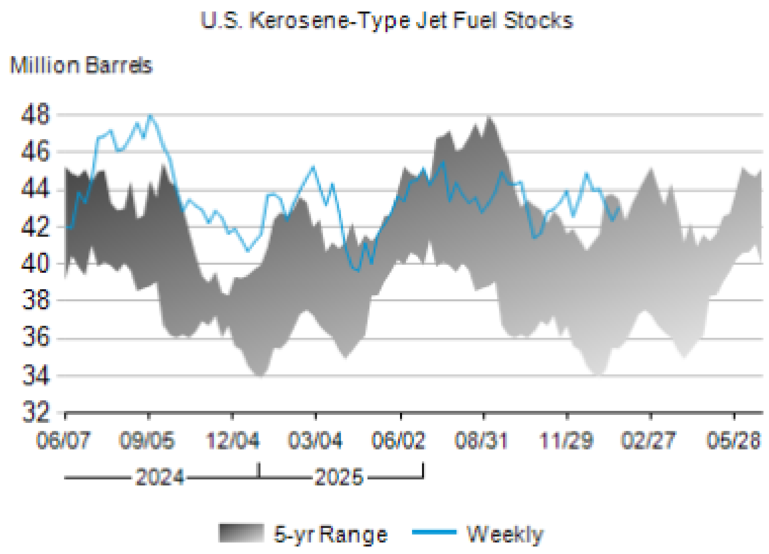
Source: https://ir.eia.gov/secure/ngs/ngs.html?Policy=eyJTdGF0ZW1lbnQiOlt7IlJlc291cmNlIjoiaHR0cHM6Ly9pci5laWEuZ292L3NlY3VyZS9uZ3MvKiIsIkNvbmRpdGlvbiI6eyJEYXRlTGVzc1RoYW4iOnsiQVdTOkVwb2NoVGltZSI6MTc5ODc3OTU0MH0sIkRhdGVHcmVhdGVyVGhhbiI6eyJBV1M6RXBvY2hUaW1lIjoxNzY5NzAwNjAwfX19XX0&Signature=1-yDpAy6NFYOcz32sNSgl203e3G-LV9cz3utijaDbSL3iR6U4BnMABK9-T8NcyvEcySJMhU454wDo03BfgX43~NWl5FdbrMsBhplVtF4XXZxeUuGCLFns2hFyaoygQ-N4fSEV3imUOw2moNt9SSDvawEYQkV2qvijFdjJCwLy988v839ZjL4LFSzo~xy-O0yOvN8ORFCN0YPxFwjMtu08FWgpnrUrtxhDyhVxLDVZDPrdeOeneIrfBTWQlJFEC97M5vqn38Qq~nteC8DBQy0pA6b3YpA5GrcDAifmKrTFy~i8311TDm~Ke9haPE2Bia64fRPDGnLUJyC0eJ7GNu4FQ&Key-Pair-Id=K39PBFH1YQSACH

US OIL STOCKS ARE NOT AT CONCERNINGLY LOW LEVELS

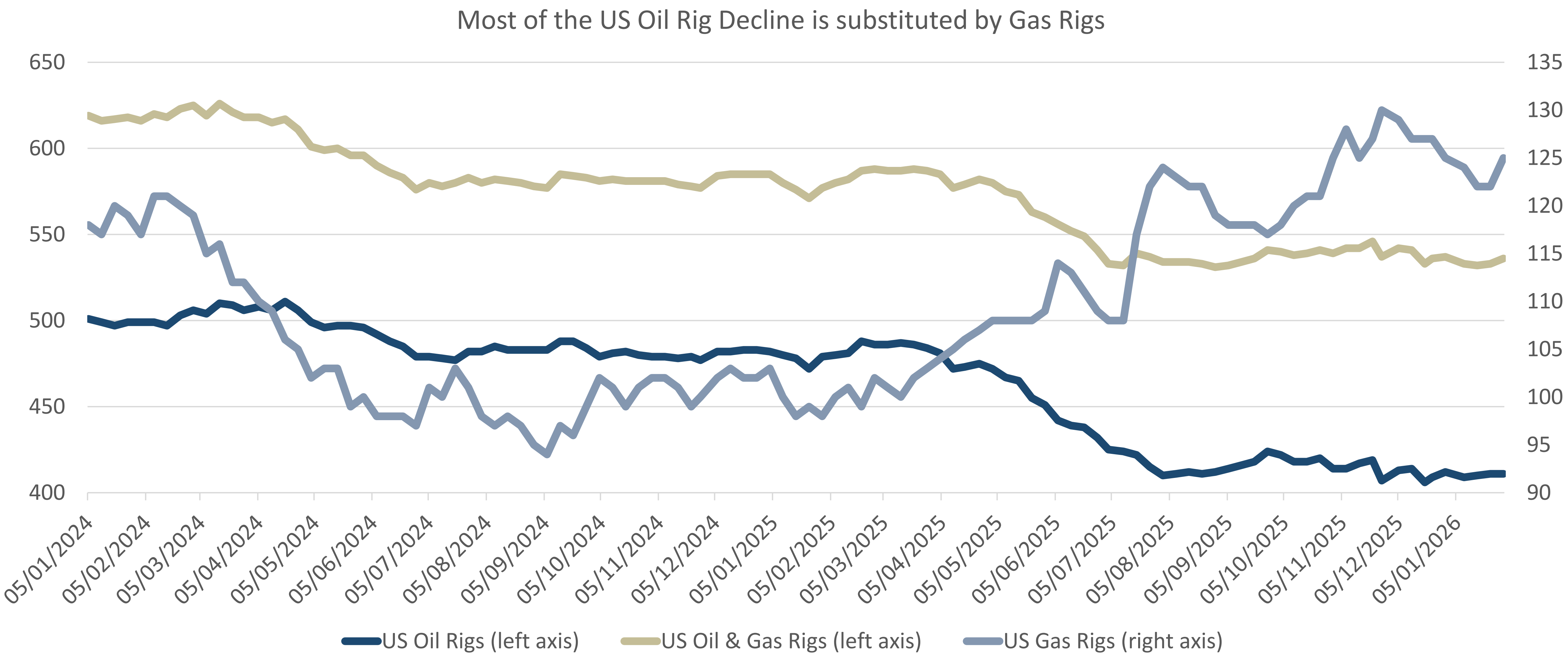








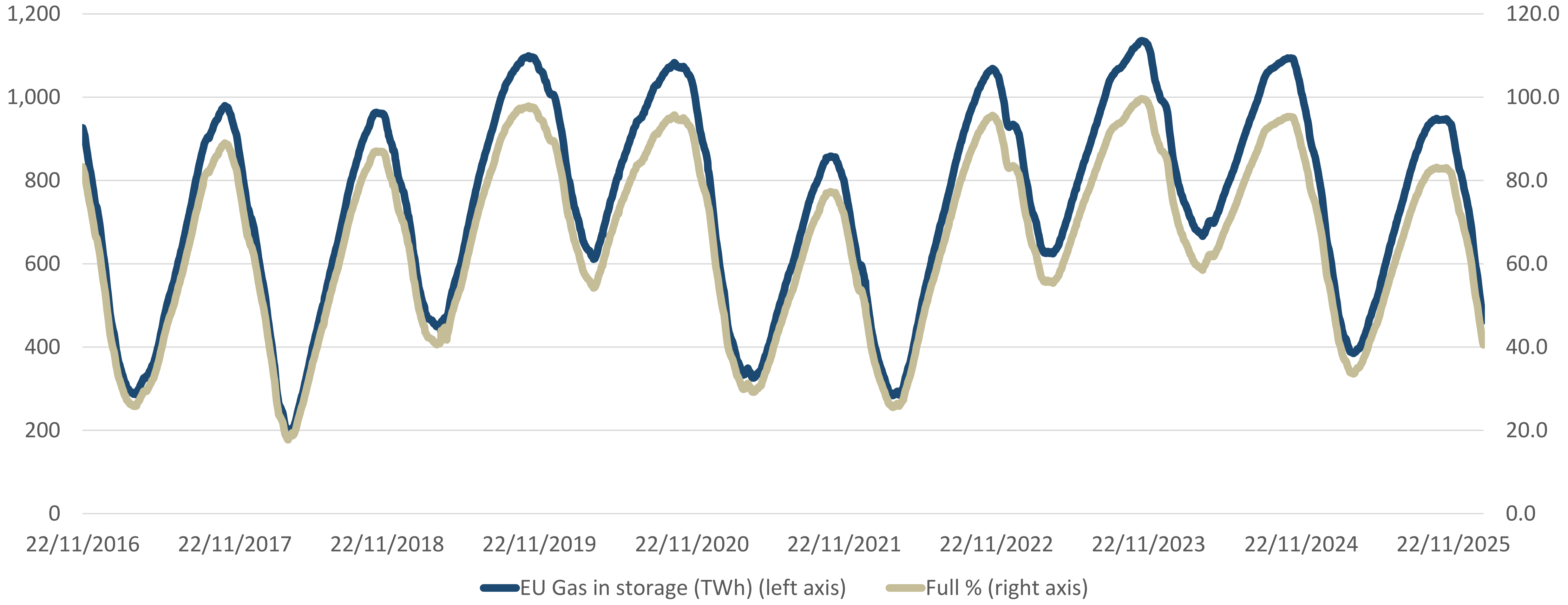
US GAS RIGS ARE UP +25% OIL RIGS DOWN -15% Y-O-Y



Source: https://rigcount.bakerhughes.com/na-rig-count

EU GAS IN STORAGE COULD END THE WINTER AT THE LOWEST LEVEL SINCE 2022

European gas in storage is >10% lower than last year at as of 2nd February 2026



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Source: https://agsi.gie.eu/data-overview/eu

THE ENERGY OUTLOOK

TAKEAWAYS

The energy outlook is another positive note in terms of a decline in inflation. Over the next two years, the equivalent of twice the size of total European gas storage amount of LNG export capacity is coming online (>2,000TWh or >20bcf/day)*. This is the reason why European gas prices are not spiking higher despite showing the lowest amount of gas in storage at this point of time in the year since the weeks before the Ukraine invasion. US natural gas prices are not rising either due to a 25% increase in US gas rigs and higher natural gas production as a result of it***. Oil and oil product storage levels are also not at critical levels, without showing signs of supply shortages (at least in the US)****.**

Source: *https://www.eia.gov/todayinenergy/detail.php?id=66384, https://qna.org.qa/en/news/news-details?id=0028-qatar-to-up-lng-production-capacity-to-142-million-tons-per-year-by-2030,-says-minister%C2%A0of%C2%A0state%C2%A0for%C2%A0energy-affairs&date=25/02/2024, ** https://agsi.gie.eu/data-overview/eu, ***https://rigcount.bakerhughes.com/na-rig-count, **** https://www.eia.gov/petroleum/supply/weekly/pdf/wpsrall.pdf

THE OUTLOOK

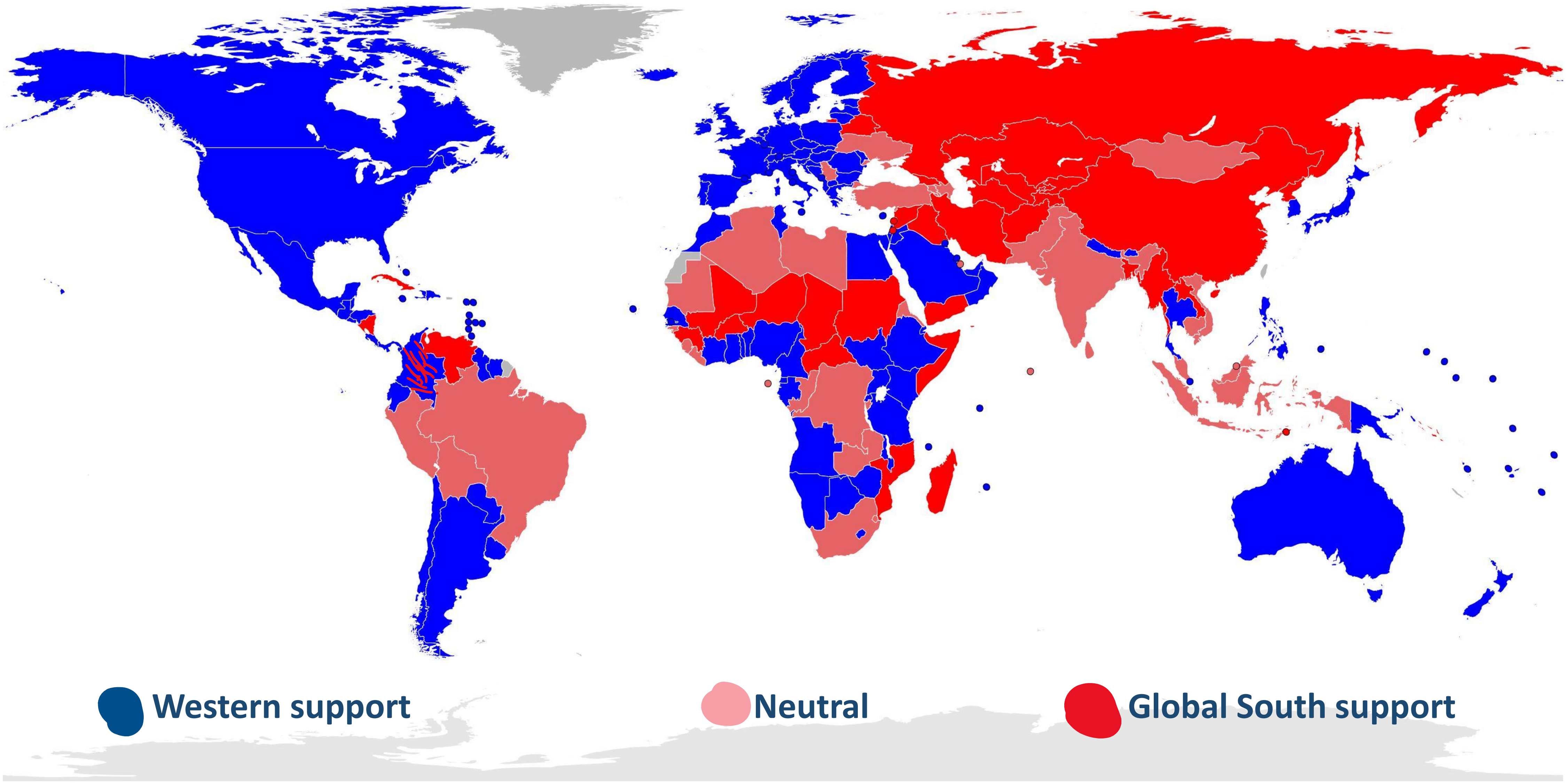
RISKS AND OPPORTUNITIES

Mag 7 are seeing some investor backlash, question AI return on investment

Company	Market cap in $bn	Net income	Multiple	Capex	Y-O-Y Stock % change
Alphabet	4,100	140	29.3x	139	+69%
Amazon	2,550	85	30x	125	0%
Apple	3,960	168	23.6x	15	+18%
Meta	1,750	90	19.4x	125	-1%
Microsoft	3,050	124	24.6x	100	0%
Nvidia	4,380	170	25.8x	10	+55%
Tesla	1,320	4	330x	20	+10%

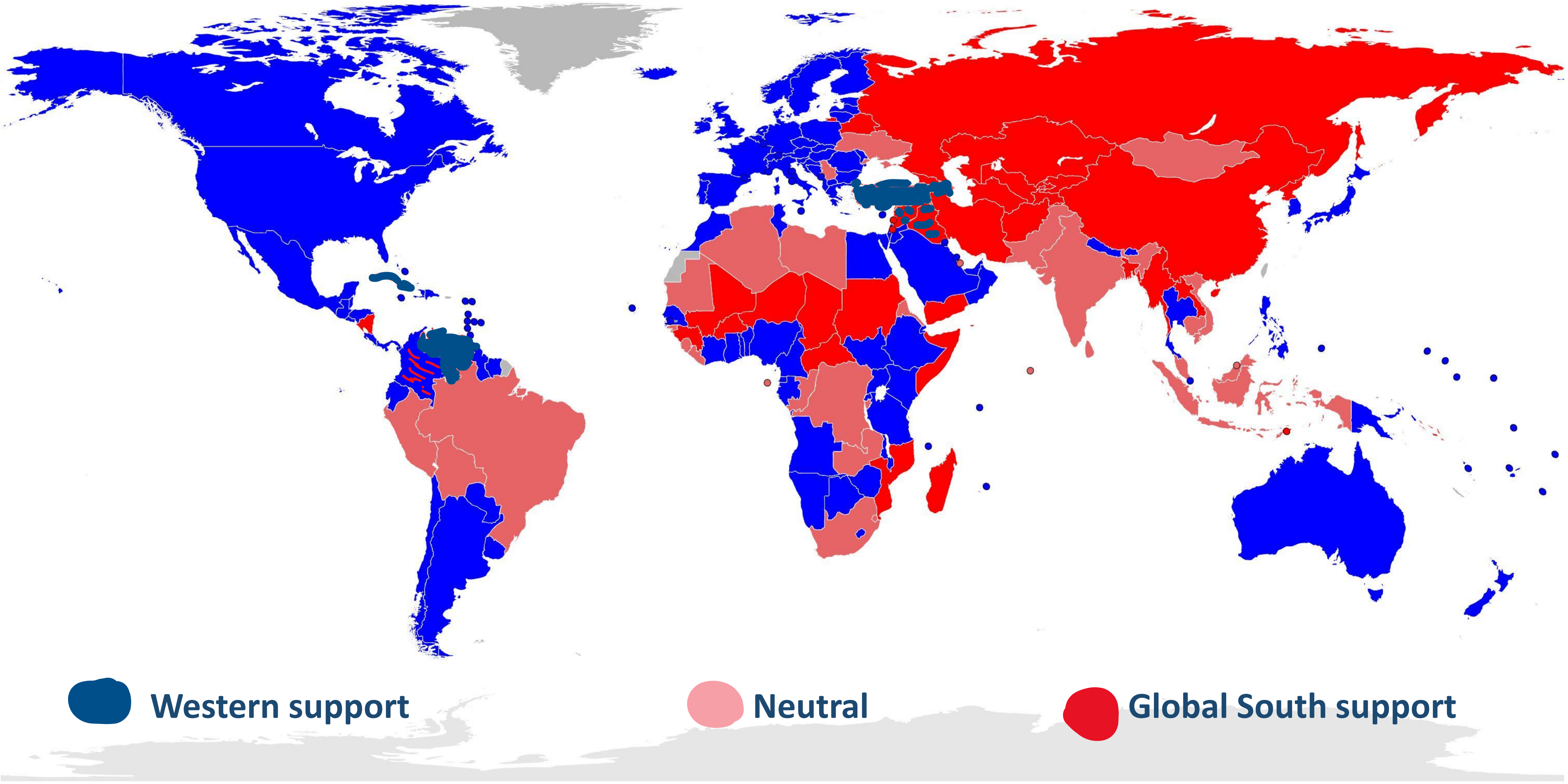
Source: Quarterly reports of individual companies (latest as of 3rd February 2026), own estimates

THE BIDEN WORLD MAP



Source: https://www.geograf.in/en/map-color.php

THE CURRENT/POTENTIAL TRUMP WORLD MAP



RISKS AND OPPORTUNITIES

Markets continue to be moved by geopolitics (Ukraine war, Iran escalation, Taiwan fear) and the AI build-out with the potential for a bubble bursting (return on investment fear like in the dotcom bubble). This does not form a strong base to invest in, especially in light of all the other data that is flashing red. The Football Worldcup and the Midterm Elections could boost advertising spending, and valuations in this sector are very low. However, with the view of lower interest rates and a few red flags waving around, the yen could prove to be one of the best investments for 2026. The capture of Maduro also enables to shift the geopolitical venue back into the West’s favour and away from the “Global South”.

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