EQUITY ALLOCATION · H2 2026

H2 2026 Equity Allocation Brief

Summary

The macro backdrop in H2 2026 has largely followed our mid-year outlook. The Fed turned hawkish and hiked in September, damaged energy supply kept inflation sticky, and AI capex became the main source of growth.

The portfolio expresses these three views through nine stocks. About 40% directly expresses the macro views, BRK serves as the defensive base at about a quarter, and the rest sits in structural growth and diversification.

Our two VAR models forecast that over the next 6 to 9 months, growth slows moderately but stays in expansion, while inflation stabilizes rather than falling further. This fits the portfolio's positioning: beneficiaries of energy and rate uncertainty hedge inflation, the defensive and diversification layers absorb slower growth, and the portfolio is much less sensitive than the S&P 500 to both the AI trade and the overall market.

The clear miss in our mid-year views was long-end rates. Since mid-September, the rise in the 10-year yield has been driven mainly by term premium, which weighs on long-duration valuations. One cause is the heavy shift of AI financing into the bond market.

The portfolio's largest risk is a concentrated bet on higher rates. If the Fed pivots to cuts, BRK and JPM would be hit together. In a 2022-style hiking shock, correlations between stocks would rise across the board and diversification would weaken.

KEY FIGURES

Portfolio value 9 holdings, excl. ~$500 cash	**$132,707**
Market beta 2-year weekly regression	**0.68**
AI theme exposure SPY: 42.1%	**13.6%**
Avg. pairwise correlation Last 12 months; 0.14 since 2023	**0.07**
Next checkpoint FOMC meeting	**Dec 9**

Data as of mid-October 2026

ANALYST

Sonny Xi

01 Portfolio Structure

The nine holdings fall into four layers by portfolio role. Macro expression is the largest layer, and BRK is the largest single position. Including BRK's look-through energy and financial exposure, the real bet on the macro views is larger than shown.

Exhibit 1. Nearly 40% of the portfolio expresses the macro views

Holdings weights by portfolio role, screenshot of October 16, 2026, excluding about $500 in cash



Defensive base 25.5%	**BRK-B** 25.5%	Held as a defensive value proxy; falls less in rate shocks, low correlation in dispersed markets
Macro expression 39.5%	**CME** 18.7% **CVX** 11.9% **JPM** 8.9%	Expresses the rate-hike cycle and energy inflation views
Structural growth 21.9%	**ROK** 8.3% **META** 8.0% **AMZN** 5.6%	Both ends of the AI-era value chain, plus North American industrial automation
Diversification and hedge 13.1%	**UNH** 7.3% **DG** 5.8%	Healthcare policy driver and recession hedge; low or negative correlation with other holdings

Source: holdings screenshot, October 16, 2026; 9 holdings, total value $132,707. Bar length scaled to the BRK-B weight.

02 Macro Backdrop: Mid-Year Views vs. Current Conditions

All five core views in the mid-year outlook have played out. Of the three views in the September piece, one is broadly right, one missed, and one has not yet come due.

Exhibit 2. Five of eight views hit; the long-end rates call missed

Hit 5 | Broadly hit 1 | Pending 1 | Miss 1

View	Current status (as of mid-October)	Verdict
Mid-year macro outlook		
Fed turns hawkish	Markets priced cuts early in the year; the Fed hiked 25bp to 3.75% to 4.00% in September, with a 4.1% dot plot median for both 2026 and 2027	Hit
Energy inflation stays sticky	September CPI 3.7% YoY, energy +20.4% YoY; SPR at about 283 million barrels, the lowest since 1982; refinery damage keeps fuel prices high relative to crude	Hit
Labor weakness masked by headline data	September payrolls +29K, prior two months revised down a combined 60K, unemployment 4.2%	Hit
AI financing migrates to bonds and securitization	Data center ABS issuance of $38.4B through August (vs. $24.1B a year earlier); the five largest tech companies have issued about $220B of bonds this year	Hit Spreads still tight, no stress yet
AI capex replaces housing as the growth engine	Q2 real GDP grew 1.5%, about half from AI-related investment; residential investment -3.9% YoY	Hit
September 21 piece, "In Charts: The Market Is Pricing a Hiking Cycle"		
Market's 2027 rate path beats the dot plot	The dot plot shows no hikes in 2027; futures price about a 90% chance that rates end 2027 at least 50bp higher	Pending
Hike pricing is driven by how long energy disruption lasts, not by the oil price level	Crude has steadied but fuel markets remain tight, with Brent at $100 to $106; after CPI, December hike odds are about 94%	Broadly hit
Long-end rise is not driven by term premium	Term premium up about 40bp since mid-September to about 0.98%, while the 10-year yield rose about 30bp	Miss

The first five views come from the mid-year macro outlook and the last three from the September 21 piece. The term premium miss is explained by the fourth view: heavy bond issuance by large tech companies absorbed long-term capital.

03 Outlook: The Next 6 to 9 Months

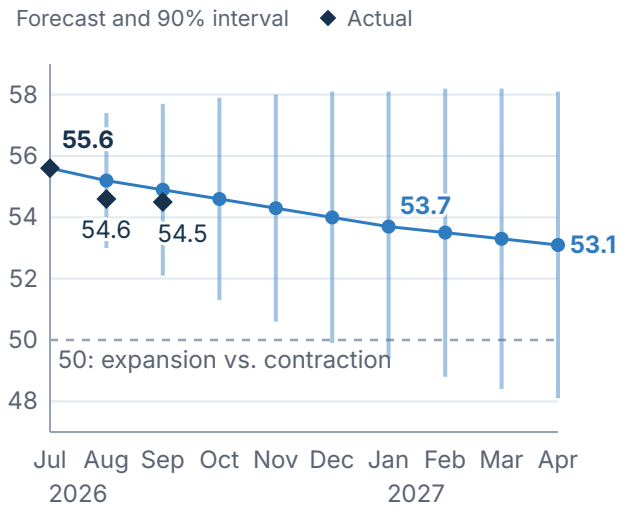
We use two VAR models to forecast growth and inflation over the next 6 to 9 months, with data through July 2026. The result: growth slows moderately but stays in expansion, and inflation stabilizes rather than falling further. This is a mild-inflation regime.

Model setup and forecasts

- **Growth model**: Targets the ISM manufacturing PMI, with core capital goods orders, the Baa minus 10-year Treasury spread, and core CPI as explanatory variables. The final forecast averages a VAR(2) and an AR(2). The probability that the PMI falls below 50 is about 8% at six months and about 16% at nine months.
- **Inflation model**: Targets core CPI, with M2 and money velocity (nominal PCE divided by M2) as explanatory variables, based on the quantity theory of money, MV = PY.
- **Out-of-sample accuracy**: Since 2010, excluding the pandemic, the PMI model's 6- and 9-month forecast errors are about 17% and 24% lower than a random walk, and the core CPI model's are about 8% and 15% lower.

Exhibit 3. The PMI eases but stays in expansion

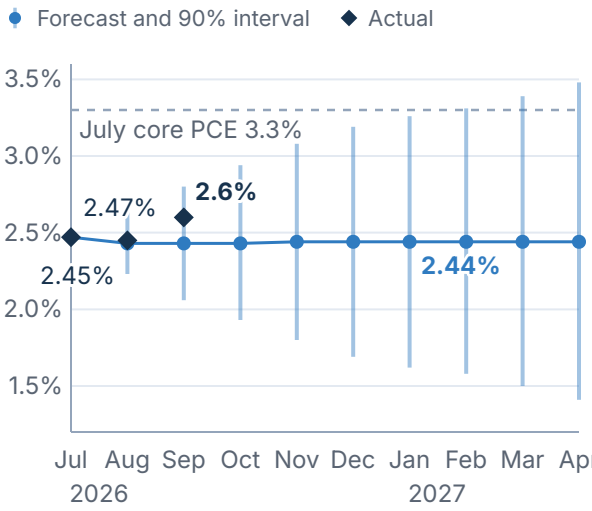
ISM manufacturing PMI, starting July 2026



Source: author's VAR report (September 2026); August and September actuals from ISM. Forecast period August 2026 to April 2027.

Exhibit 4. Core CPI is expected to hold near 2.4%

Core CPI, year over year, starting July 2026



Source: author's VAR report (September 2026); August and September actuals from BLS; core PCE as of July 2026.

03 Outlook: The Next 6 to 9 Months (continued)

Latest data vs. the models

August and September actuals both fall inside the 90% intervals, but in different directions: the PMI came in slightly below forecast and core CPI above it. Another signal: core PCE, the Fed's preferred gauge, ran about 0.9 percentage points above core CPI in July, while from 2015 to 2019 it averaged about 0.45 points below. The gap comes mainly from transportation services pushed up by jet fuel, and from financial services, which carry a larger weight in PCE.

Data since September point the same way as the models, with upside risk to inflation:

- **Slowing growth**: Q2 real GDP grew 1.5%, with almost no growth outside AI-related investment; payrolls averaged only about 51K a month from July to September.
- **Persistent inflation**: September CPI was 3.7% year over year; core CPI rose 0.3% month over month for two straight months and has broadened to core goods and core services.

Implications for the portfolio

Exhibit 5. Expected winners and losers under three macro shifts

Macro shift	Expected beneficiaries	Expected under pressure
Inflation persists; oil and inflation expectations stay high	CVX CME	DG
Growth slows; yields fall	DG UNH BRK	JPM net interest income
Growth fears trigger risk-off	CVX holds up; the defensive layer falls less	ROK AMZN META JPM

These three shifts are exactly the risks the VAR report lists as outside its models: a prolonged Middle East energy shock, further Fed tightening, and slower AI capex. The portfolio's three themes map onto them: CVX hedges the energy shock, BRK, JPM and CME benefit from further hikes, and the low AI beta softens the hit from slower AI capex. The evidence is in Section 05, Resilience and Diversification. The full model setup, variable selection and backtests are in the September 2026 report, "ISM Manufacturing PMI and Core CPI: A 6- to 9-Month Forecast from Two VAR Models."

04 Stock Positioning

Each holding maps to a macro environment. The "Expectations and checkpoints" column lists the signals that will confirm or refute each view over the next few quarters.

Exhibit 6. Role, macro environment and checkpoints for the nine holdings

Holding and role	Macro environment	Growth drivers	Expectations and checkpoints
BRK-B Defensive base	Rising short-term Treasury income in a hiking cycle; lower volatility in macro shocks	Capital allocation of about $365.5B in cash and T-bills; float of about $177.5B; up 4.0% in 2022 when the S&P fell 18.1%	Falls less than the S&P in down weeks; Abel's cash deployment adds operating earnings; steady underwriting profit
CME Macro expression	Uncertain rate path; the dot plot and futures disagree	Hedging demand drives volume; franchise intact, valuation still below the $333 DCF base case	Monthly volume grows year over year; prediction markets do not divert core products
CVX Macro expression, shock protection	Sticky energy inflation: low SPR, refinery damage, tight fuel	Tighter fuel supply; geopolitical risk premium	Crack spreads stay high; trade in and out by rule, trim when geopolitics ease
JPM Macro expression	Rising rates; the credit cycle has not turned	Net interest income (full-year guidance about $106.2B); small real estate exposure; active push into private credit	NII excluding Markets keeps growing; card net charge-offs near the 3.2% guidance
ROK Structural growth	US manufacturing expansion (ISM above 50 for 9 straight months); low correlation with AI data center capex	Control-layer moat in North America; long-term automation trend; physical AI as a long-dated option	Organic growth keeps pace with the PMI; Logix sustains double-digit growth; ARR accelerates
META Structural growth (intent formation)	AI capex leads growth; term premium weighs on long-duration valuations	AI lifts ad efficiency; Muse subscription revenue; clear product roles	Ad price growth outpaces impression growth; Muse paid users start being disclosed
AMZN Structural growth (transaction closure)	AI capex leads growth; US e-commerce accelerates	AWS acceleration; e-commerce penetration and share; logistics and automation	AWS growth outpaces capex growth; North America online growth beats Census e-commerce growth; timing of positive FCF
UNH Diversifier	Driven by policy and medical costs; low correlation with other holdings	Margin recovery (Q3 MCR 88.4%); Optum Health recovery; aging as a medium-term driver	MCR excluding reserve adjustments keeps improving; membership stabilizes in 2027
DG Hedge	Benefits in a recession; pressured by inflation and SNAP cuts	Trade-down traffic; rural footprint; margin recovery	Same-store growth led by traffic; gross margin improves excluding tariff refunds; stays low-correlation in down weeks

Sorted by portfolio role; see Exhibit 1 for weights.

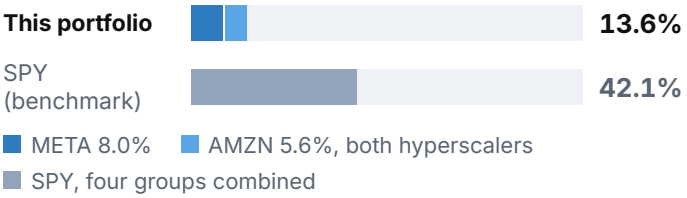
05 Resilience and Diversification

The portfolio is far less sensitive than the S&P 500 to both the AI trade and the overall market, and its holdings are weakly correlated. But in a risk-off move driven by growth fears, most holdings would still fall together. All data in this section come from the portfolio dashboard, covering AI exposure and sensitivity, correlation between holdings, and correlation with macro factors.

AI exposure and sensitivity

Exhibit 7. The portfolio's AI exposure is about a third of SPY's

AI theme exposure, % of portfolio value, look-through



Source: portfolio dashboard. The AI theme is a custom classification of four groups: hyperscalers, compute stack, infrastructure and services, and physical buildout; AI software is excluded. SPY holdings as of June 30, 2026.

On a look-through basis, the portfolio's AI exposure is 13.6%, all from two hyperscalers, AMZN and META. SPY's is 42.1%, which beyond hyperscalers includes large positions in compute (chips) and in infrastructure and physical buildout. The portfolio holds none of these direct beneficiaries of AI capex.

Exhibit 8. Net of the market, the portfolio's AI factor exposure is negative

Portfolio	AI beta	Market beta	R^2	AI weight
This portfolio	**-0.17**	**0.68**	**0.57**	**13.6%**
SPY (benchmark)	0.00	1.00	1.00	42.1%
Equal-weight AI stocks (the factor)	1.00	1.00	1.00	

Source: portfolio dashboard. Two years of weekly returns regressed on SPY and an equal-weight AI factor.

Regressing two years of weekly returns on SPY and an equal-weight AI factor gives the portfolio an AI beta of -0.17 and a market beta of 0.68. A negative AI beta means that, net of the market, the portfolio lags when AI stocks rally and holds up when the AI trade unwinds. This hedges the "slower AI capex" risk named in the VAR report. The cost is underperforming the index in AI-led rallies. An R^2 of 0.57 means more than 40% of the portfolio's variation comes from factors other than the market and AI.

05 Resilience and Diversification (continued)

Correlation between holdings

Exhibit 9. Pairwise correlations between the nine holdings are low in both windows

Pairwise correlation coefficients, grouped by portfolio role

◣ Lower left: last 12 months ◥ Upper right: 2023 to date ☐ Pairs discussed in the text -0.6 +0.6

	Base	Macro expression			Structural growth			Diversifiers	
BRK-B	**BRK-B**	0.18	0.30	0.51	0.21	0.17	0.30	0.17	0.04
CME	0.19	**CME**	0.13	0.10	-0.08	-0.04	-0.07	0.05	0.06
CVX	0.01	0.30	**CVX**	0.30	0.05	0.01	0.18	0.05	0.00
JPM	0.24	0.02	-0.05	**JPM**	0.28	0.25	0.44	0.10	0.01
AMZN	0.02	-0.07	-0.17	0.16	**AMZN**	0.56	0.35	0.01	-0.04
META	0.01	-0.02	-0.22	0.17	0.38	**META**	0.29	-0.01	-0.02
ROK	-0.06	-0.19	-0.20	0.38	0.23	0.19	**ROK**	0.04	0.03
UNH	0.19	0.06	-0.03	0.18	0.03	0.10	0.10	**UNH**	0.02
DG	0.15	0.10	-0.06	0.05	0.09	0.10	0.10	0.13	**DG**

Source: portfolio dashboard. Below the diagonal, each cell is the last-12-month correlation between the row and column holdings; above it, 2023 to date.

The average pairwise correlation of the nine holdings is about 0.07 over the last 12 months and 0.14 since 2023. For comparison, nine large tech stocks (AAPL, MSFT, NVDA and others) average about 0.39 since 2023. Points worth noting:

- **The two most correlated pairs**: AMZN and META (0.56 since 2023, down to 0.38 over the last 12 months), and JPM and BRK (0.51, down to 0.24). The latter reflects the financial overlap from BRK's look-through stakes in American Express and Bank of America.
- **CVX is negatively correlated with the growth layer**: Over the last 12 months, CVX's correlations with ROK, AMZN and META are -0.20, -0.17 and -0.22, making it the portfolio's true hedge. Since 2023, however, these pairs are near zero or slightly positive.
- **DG is near zero with every holding**: Between -0.06 and 0.15 in both windows. DG provides diversification, not a negatively correlated hedge in the strict sense.

05 Resilience and Diversification (continued)

Correlation with macro factors

Exhibit 10. CVX is the only holding that gains both when oil rises and in risk-off

Correlation of the nine holdings with eight macro factors; color by last 12 months

0.53 Top: last 12 months 0.52 Bottom: 2023 to date ☐ CVX vs. Brent and VIX -0.6 +0.6

	Rates			Inflation & oil		FX	Credit & risk	
	10Y	2Y	Real yield	Break-even	Brent	Dollar	Baa spread	VIX
BRK-B	**-0.19** -0.01	**-0.09** 0.10	**-0.16** -0.09	**-0.12** 0.14	**-0.20** -0.02	**0.01** -0.09	**-0.04** -0.20	**-0.13** -0.40
CME	**0.06** 0.01	**0.03** 0.00	**-0.08** -0.03	**0.30** 0.08	**0.20** 0.07	**-0.20** -0.07	**0.00** 0.03	**-0.22** -0.16
CVX	**0.32** 0.21	**0.26** 0.24	**0.23** 0.02	**0.32** 0.42	**0.53** 0.52	**0.08** 0.02	**0.07** -0.25	**0.33** -0.21
JPM	**-0.09** 0.13	**-0.01** 0.22	**-0.08** -0.02	**-0.05** 0.32	**-0.10** 0.05	**-0.12** -0.17	**-0.11** -0.40	**-0.40** -0.55
AMZN	**-0.03** -0.04	**-0.06** -0.03	**-0.14** -0.10	**0.19** 0.10	**-0.10** -0.05	**-0.28** -0.25	**-0.15** -0.24	**-0.45** -0.53
META	**-0.09** -0.08	**-0.11** -0.02	**-0.15** -0.09	**0.07** -0.03	**-0.12** -0.10	**-0.26** -0.16	**-0.14** -0.17	**-0.40** -0.36
ROK	**-0.08** 0.00	**-0.19** 0.06	**-0.05** -0.11	**-0.10** 0.19	**-0.37** -0.06	**-0.32** -0.29	**0.07** -0.29	**-0.47** -0.50
UNH	**-0.26** 0.02	**-0.08** 0.03	**-0.28** 0.05	**-0.05** -0.04	**-0.18** -0.10	**-0.08** -0.08	**-0.07** -0.04	**-0.22** -0.01
DG	**-0.46** -0.18	**-0.52** -0.16	**-0.44** -0.19	**-0.19** -0.06	**-0.45** -0.19	**-0.45** -0.33	**0.10** 0.04	**-0.26** 0.02

Source: portfolio dashboard. Dollar is the broad dollar index.

Mapping the table to the VAR scenarios (last-12-month figures; a negative VIX correlation means the stock falls in risk-off):

- **Persistent inflation**: CVX's correlation with Brent is 0.53 and with the 10-year breakeven 0.32; CME's with breakevens is 0.30. These two are the portfolio's inflation hedges. Most exposed are DG (-0.45 with Brent) and ROK (-0.37).
- **Slower growth, falling yields**: DG's correlations with the 10-year and 2-year yields are -0.46 and -0.52, UNH's with the 10-year is -0.26, and BRK's -0.19. They benefit when yields fall. CVX's correlation with the 10-year is 0.32, the opposite sign, so the two sides offset on rates.
- **Risk-off (VIX rising)**: Hit hardest are ROK (-0.47), AMZN (-0.45), and META and JPM (both -0.40); BRK (-0.13), CME and UNH (both -0.22) and DG (-0.26) fall less; CVX is the only positive correlation (0.33).

Three caveats

1. **Low correlation is not low drawdown**: Low correlation between holdings diversifies stock-specific risk; systematic risk remains. The portfolio's market beta is 0.68 (two-year weekly regression), so a 10% fall in the S&P 500 implies a portfolio decline of about 6.8%. But this estimate explains only about 57% of the portfolio's variation (R^2 of 0.57), and the sample period was relatively calm. Betas tend to rise in sharp sell-offs, so actual drawdowns could be larger.
2. **Different windows, different conclusions**: The most favorable hedging relationships above are much weaker in the 2023-to-date window: CVX's correlation with VIX is -0.21, and DG's with the 10-year yield only -0.18. The last-12-month pattern largely reflects the Middle East energy shock since February 2026 and may not hold once it fades.
3. **Macro shocks push correlations up**: The average pairwise correlation of nine large tech stocks was about 0.60 in 2020 to 2022 and fell to about 0.39 since 2023. A stress test of this portfolio's nine holdings over the 2020 to 2022 window is still to be done.

06 Scenarios and Risks

Portfolio performance depends on how rates evolve. We are currently in the orderly-hikes scenario.

Exhibit 11. Portfolio performance under three rate scenarios

Scenario	Characteristics	Expected to do better	Expected under pressure
Orderly hikes Current	Growth still solid, dispersion within AI, low correlation between stocks	BRK (negatively correlated with AI chip stocks), CME, JPM; DG and UNH add diversification	Long-duration valuations of AMZN and META
Hiking shock 2022-style	Inflation surprises, faster hikes, broad multiple compression, rising correlations	CVX (energy), BRK (falls less)	AMZN, META, ROK; DG's core customers squeezed
Pivot to cuts Base case refuted	The economy weakens clearly and the Fed eases	AMZN, META (valuation recovery), DG (trade-down traffic in a recession)	BRK's cash income, JPM's net interest income

Portfolio-level risks

Concentrated bet on higher rates
BRK, JPM and CME total about 53%; CME benefits from uncertainty and is the most resilient of the three.

Look-through overlap
BRK holds CVX, OXY, American Express and Bank of America, so real energy and financial exposure exceeds the headline weights.

Tensions inside the portfolio
Amazon is pushing into rural delivery, competing directly with DG's rural moat; higher oil helps CVX and squeezes DG, a natural hedge.

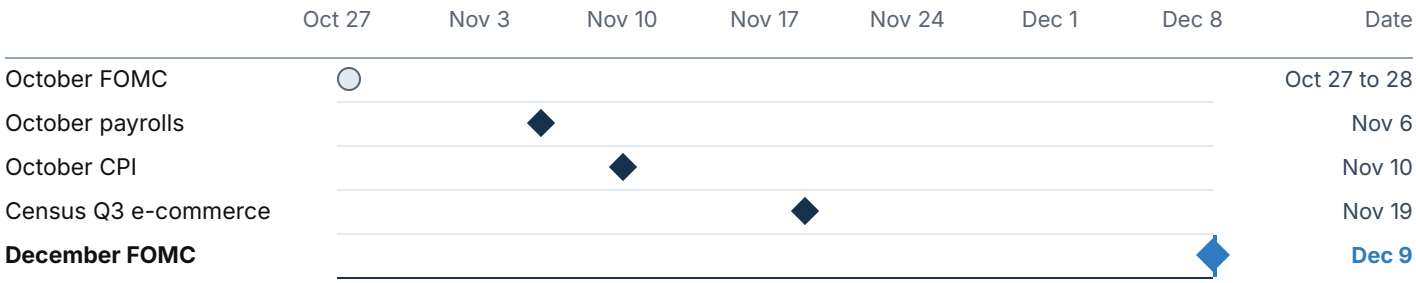
Elevated term premium
The 10-year term premium is about 1%, the highest since 2014, putting the most valuation pressure on AMZN and META.

07 Near-Term Watch Calendar

Three data releases between the two FOMC meetings will test the views on jobs, energy inflation and e-commerce acceleration.

Exhibit 12. The December 9 FOMC is the next key test of the mid-year views

Upcoming Fed meetings and macro releases, 2026



Company earnings fall roughly between late October and early December; see company announcements for exact dates.

Notes

- Data as of mid-October 2026; holdings from a screenshot of October 16, 2026, excluding about $500 in cash.
- Not covered: stock valuation, benchmark and rebalancing rules, to be added in upcoming stock reports and the full allocation report.
- This report is a personal research record and not investment advice.
- This portfolio is the equity portion of family assets; liquidity reserves are held outside it.
- Figures come from the public reports and company filings listed below; verify each against the original before publication.

Sources

Models and portfolio	Author's VAR report: "ISM Manufacturing PMI and Core CPI: A 6- to 9-Month Forecast from Two VAR Models," September 2026 (Exhibits 3 and 4) Portfolio dashboard: holdings correlation, macro factor correlation, AI theme exposure and AI sensitivity (Exhibits 7 to 10)
Macro	Fed September hike and dot plot · Early-year rate cut expectations · September CPI · December hike odds · Dallas Fed refinery analysis · SPR and oil prices · September payrolls · Data center ABS · Term premium and tech bond issuance · AI contribution to GDP · Residential investment · 2027 rate pricing · September ISM
Stocks	BRK Q2 cash and float · BRK 2022 performance · JPM Q3 · JPM card charge-off guidance · ROK Q3 FY26 · META Q2 · Muse launch · AMZN AWS and capex · US e-commerce data · UNH Q3 · DG Q2 FY26 · Amazon rural delivery
Calendar	December FOMC · October CPI release date · October payrolls release date · Census Q3 e-commerce release date

DISCLOSURES

Holdings Family accounts managed by the author hold all nine stocks discussed in this report: BRK-B, CME, CVX, JPM, ROK, META, UNH, DG and AMZN. Positions may change at any time without notice.

Views The views in this report are the author's own, based on public information available at publication and the author's own models.

Not advice This report is a personal research record and does not constitute a recommendation to buy or sell any security. Sources are listed on page 11.

ABOUT THE AUTHOR

Sonny Xi

Macro and equity research

Sonny Xi's research focuses on how macro, rates and geopolitics transmit to asset prices. He builds a macro framework and tests it with models, works down to industry value chains and individual stocks, and then checks at the portfolio level whether the views contradict each other.

The macro forecasts in this report come from his own VAR models; the holdings correlation, macro factor and AI exposure data come from the portfolio dashboard he built. He publishes macro, rates and equity research on his personal research website.

EDUCATION

University of Illinois Urbana-Champaign
M.S. in Finance (STEM-designated), May 2026

The George Washington University, Elliott School of International Affairs
B.A. in International Affairs and Finance, cum laude

EXPERIENCE AND CREDENTIALS

Research and investment experience
Sell-side equity research, buy-side equity analysis, private equity due diligence, credit risk modeling

Level I Candidate in the CFA Program
Sitting for the February 2027 exam

RESEARCH PLATFORMS

Research website: sonnyxi-research.com
Macro, rates and geopolitics research

Portfolio dashboard: portfolio-dashboard-sonnyxi.streamlit.app
Source of this report's correlation, macro factor and AI exposure data

CONTACT

sonnyxi1205@gmail.com

ouxi2@illinois.edu

sonnyxi-research.com

RELATED RESEARCH

"ISM Manufacturing PMI and Core CPI: A 6- to 9-Month Forecast from Two VAR Models"
September 2026; source of the forecasts in Section 03

"In Charts: The Market Is Pricing a Hiking Cycle"
September 21, 2026; source of the last three views in Section 02