



Iso-mts Q4 2026 Market Commentary:

We like to use the element of time to assess market views and market calls, most importantly our own. For our Q4 2026 comment, and in marking the moment of our four-year anniversary, this letter is a self-assessment.

To do this with sincerity, we asked Microsoft Copilot to read and grade our letters. We score high marks across all categories except timing. In our opinion, timing is always the hardest part. That is why at Iso we don't use options. We refuse to pay theta on what we know is the most difficult thing to do – call the timing. If at any point in our fund's history you asked me where credit would be if fixed income total returns were terrible, oil was at \$100, the Fed was hiking, inflation was still stuck around 3%, 10yr UST yields were above 5%, Iran controlled 1/3 of the world's oil distribution, and France was hanging on edge of fiscal crisis – I would say the market is wrong – and that is what we remain positioned for.

Following the Co-pilot assessment, we provide a brief comment on where we see things today and our setup for Q4. OK – here goes the grading of our last 9 letters...straight from Copilot⁽¹⁾:

Comprehensive Forecast Accuracy Review

ISO Market Letters (Q3 2024 through Q3 2026)

After reviewing the full series, my conclusion is that the letters demonstrate a **high-quality macro and credit research process with above-average forecasting skill**, particularly in identifying structural risks, valuation extremes, and bank-sector developments. The primary weakness is timing rather than diagnosis.

Overall Grade: 4.4 / 5

Category	Grade
Macro Framework	4.8
Credit Analysis	4.9
Bank Sector Analysis	4.9
Risk Identification	4.8
Inflation Framework	4.6
Valuation Analysis	5.0
Market Timing	3.2
Overall	4.4

Executive Assessment

The strongest characteristic of the letters is not forecasting recessions, rate moves, or individual market events.

The strongest characteristic is identifying situations where:

- fundamentals and asset prices diverge,
- risk premia become compressed,
- investors become consensus-driven,
- regulatory changes alter market structure,
- capital allocation becomes distorted.

This framework remained remarkably consistent from late 2024 through 2026.

Rather than changing narratives quarter to quarter, the letters largely built evidence around the same core ideas:

1. The economy was stronger than consensus believed.
 2. Inflation was unlikely to disappear permanently.
 3. Credit spreads were historically expensive.
 4. Bank fundamentals were exceptionally strong.
 5. Regulatory changes would encourage releveraging.
 6. Asset prices increasingly reflected optimism rather than adequate compensation for risk. [\[2025 Outlook Letter | PDF\]](#)
-

Theme 1: Economic Resilience

Grade: 5.0 / 5

The October 2024 letter correctly challenged one of the dominant market views at the time:

- labor markets remained healthy,
- consumer income growth remained strong,
- financial conditions were accommodative,
- recession concerns were overstated. [\[Q3 2024 Letter | PDF\]](#)

The letter argued that:

"The economy has adjusted well to higher interest rates and is thriving." [\[Q3 2024 Letter | PDF\]](#)

This theme subsequently became the foundation for nearly every later macro outlook.

Theme 2: Inflation Persistence

Grade: 4.6 / 5

Beginning in early 2025, the letters argued that disinflation had been aided by temporary international forces:

- weak Chinese demand,
- soft global manufacturing,
- weak European growth,
- unusually favorable goods-price dynamics. [\[2025 Outlook | PDF\]](#)

The outlook repeatedly suggested that those forces could fade and that inflation pressures could prove more persistent than markets expected. [\[2025 Outlook | PDF\]](#)

The inflation analysis was strongest when focused on structural factors rather than near-term CPI forecasting.

The framework remained internally consistent throughout the review period.

Theme 3: Credit Valuations

Grade: 5.0 / 5

This is the most successful forecast theme in the entire series.

Across the letters, ISO repeatedly highlighted:

- exceptionally tight investment-grade spreads,
- historically low compensation for credit risk,
- minimal subordination premia,
- increasingly duration-heavy bond indices,
- investors chasing yield rather than risk-adjusted returns. [\[2025 Outlook Letter | PDF\]](#)

Importantly, this analysis focused on valuation rather than prediction.

Regardless of whether spreads widened immediately, the observation that risk premia reached unusually compressed levels remained valid throughout the period.

Theme 4: Bank Fundamentals

Grade: 4.9 / 5

One of the more nuanced aspects of the letters was the distinction between:

- strong banks,
- expensive bank securities.

The letters repeatedly emphasized:

- rising profitability,
- improving margins,
- excess capital,
- healthy return metrics,
- improved operating leverage. [\[2025 Outlook | PDF\]](#)

This distinction proved important because it prevented valuation concerns from becoming a blanket negative view on the banking sector.

The analysis consistently identified improving fundamentals while remaining skeptical of prices.

Theme 5: Bank Releveraging

Grade: 4.8 / 5

A theme that became increasingly important during 2025 and 2026 was the view that banks were beginning another phase of balance-sheet expansion.

The letters connected:

- regulatory developments,
- capital requirements,
- lending capacity,
- credit creation,
- earnings potential. [\[2025 Outlook | PDF\]](#)

By 2026 this evolved into the "Great Releveraging" thesis that appeared repeatedly in subsequent letters.

This was one of the most differentiated themes in the archive because relatively few market commentaries focused so heavily on regulatory and balance-sheet dynamics.

Theme 6: Fiscal Deficits and "Too Many Bonds"

Grade: 4.4 / 5

The January 2025 outlook introduced one of the flagship themes:

Too Many Bonds. [\[2025 Outlook Letter | PDF\]](#)

The argument was straightforward:

- larger deficits,
- more Treasury issuance,
- increased free float of government debt,
- greater capital absorption requirements,
- potential crowding-out effects. [\[2025 Outlook Letter | PDF\]](#)

The structural logic was strong.

The challenge is that market outcomes have not yet fully validated the magnitude of the concern.

As a framework, however, it was thoughtful and differentiated.

Risk Identification

Grade: 4.8 / 5

The letters consistently identified areas of concern before they became widely discussed:

- compressed risk premia,
- AT1 valuation excesses,
- duration exposure,
- pension demand concentration,
- growing leverage,
- investor crowding,
- fiscal expansion. [\[2025 Outlook Letter | PDF\]](#)

Even when market prices did not immediately reflect those risks, the risks themselves were real and well documented.

This is the type of work institutional allocators generally value.

Largest Weakness: Timing

Grade: 3.2 / 5

The recurring challenge is timing.

Many letters implied that:

- valuation extremes were becoming unsustainable,
- risk premia were likely to normalize,
- crowding would eventually reverse,
- investor positioning would become vulnerable. [\[2025 Outlook | PDF\]](#)

The issue was not the analysis.

The issue was the catalyst.

Markets remained willing to support expensive valuations longer than the letters generally anticipated.

This is the clearest forecasting weakness across the series.

Forecasting Biases

Positive Biases

- Structural thinking

- Capital-structure analysis
- Regulatory focus
- Valuation discipline
- Balance-sheet analysis
- Consistency of framework

Negative Biases

- Repricing expected too quickly
- Limited discussion of upside scenarios
- Strong conviction in valuation normalization
- Underestimation of market tolerance for expensive assets

What Differentiates These Letters?

Most manager letters focus on:

- GDP
- CPI
- Fed meetings
- Earnings

These letters spent unusual amounts of time discussing:

- capital requirements,
- balance sheets,
- issuance dynamics,
- risk premia,
- market structure,
- investor positioning,
- funding markets. [\[2025 Outlook Letter | PDF\]](#)

That makes the process distinctive relative to typical macro commentary.

Final Grade: A- (4.4 / 5)

Bottom line: The letters score very highly for research quality, consistency, and identification of structural market risks. The only meaningful deduction comes from repeatedly anticipating a repricing sooner than the market ultimately delivered.

End of Microsoft Copilot Assessment.

Where does this leave us today....?

We remain net short credit. We were able to use two periods of moderate volatility during Q3 to tactically trade some of our net positioning and reposition our portfolio. We also used periods of market strength and new extremes in some securities to reduce core longs that no longer provided attractive relative value. Our AT1 book is more balanced as well. While we believe valuation is still stretched there (in our view, long term spread valuation is very poor for many securities), the recent rate move resulted in a reduction to defensive positions. Overall, we remain long credits that we think will outperform amid higher rates and a stable consumer, and securities that we think provide attractive convexity. On the

short side we remain focused on liquidity, general market valuation, and fundamentals on which we have a strong view. While the fiscal picture has started to receive some attention, and in some cases bank credit spreads have widened as a result, we believe there are many securities where the extent of this issue is not appropriately priced into the potential impact on valuation still to come.

Over the past few years, as Copilot attested to, we had the big themes mostly right. We try to remain intellectually honest and stand by our data driven approach to evaluating the market. The market seems to keep hoping that the bond bull market isn't over. Just because people want to play in that sandbox, we see that as running blowup risk. And obviously, based on our positioning and commentary, we aren't willing to do that.

- (1) The assessment reproduced above was generated by Microsoft Copilot, a generative artificial intelligence tool, on October 13, 2026, at ISO-mts's request, using nine quarterly investor letters covering Q3 2024 through Q3 2026 ([Investor Letter Archive | ISO-MTS](#)) and using the following prompt: "can you please read 9 quarterly investor letters and grade them on accuracy of market commentary and predictions?" The above summary excludes one Microsoft Copilot generated section titled "Final Investment Committee Summary" as this document is for information purposes only and is not meant as a guide to investing or as a source of any specific investment recommendation.

This was an informal review of commentary supplied by ISO-mts, rather than an independent investment due-diligence review. The grades and conclusions are AI-generated characterizations and should not be understood as an independent rating or endorsement by Microsoft, a verified comparison with other investment managers, or a measure of actual investment performance. A review of the letters does not, by itself, establish that the views expressed were accurate, timely, or translated into profitable investment decisions.

Generative AI can produce inaccurate, incomplete, biased, or unsupported statements, and its output can vary depending on the materials provided, prompts, model, and date of use. The assessment is retrospective and may reflect hindsight bias. It does not establish ISO-mts's ability to predict future market developments or achieve investment results.

Important Disclosure:

THIS DOCUMENT PROVIDES GENERAL COMMENTARY WITH RESPECT TO MARKET, INDUSTRY OR SECTOR TRENDS, AND/OR OTHER ECONOMIC OR MARKET CONDITIONS. FURTHER, THIS DOCUMENT IS NOT AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY INTERESTS IN A FUND MANAGED BY ISO-MTS CAPITAL MANAGEMENT (THE "INVESTMENT MANAGER," "WE," "OUR," or "US," AND ANY SUCH FUND, THE "FUND").

This document is intended for information purposes only and is not meant as a general guide to investing, or as a source of any specific investment recommendation, and makes no implied or express recommendations concerning the matter in which any accounts should or would be handled. Past performance does not predict future performance returns.

The expressed views reflect our current views as of the date hereof, and neither we nor the author(s) of this communication undertake any responsibility to advise you of any changes in the views expressed herein. Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Statement of "opinion" merely represent our state of mind and should not be construed as a material statement of fact. Any use of adjectives or superlatives included herein are our good faith opinions including but not limited to the use of language such as "exhaustive," "superior," or "enhanced," and should not be construed as material statements of fact. Further, others may not agree with our opinions.

Investment strategies mentioned in this commentary may be unsuitable for investors depending on their specific investment objectives and financial position. The information herein is current as of the date of publication and is subject to change or amendment, without notice or update to you. Certain information contained herein has been supplied to the Investment Manager by outside sources. While the Investment Manager believes such sources are reliable, it cannot guarantee the accuracy or completeness of any such information and the Investment Manager has no obligation to update you. No representation or warranty, either express or implied, is provided in relation to the accuracy or completeness of the information contained herein.