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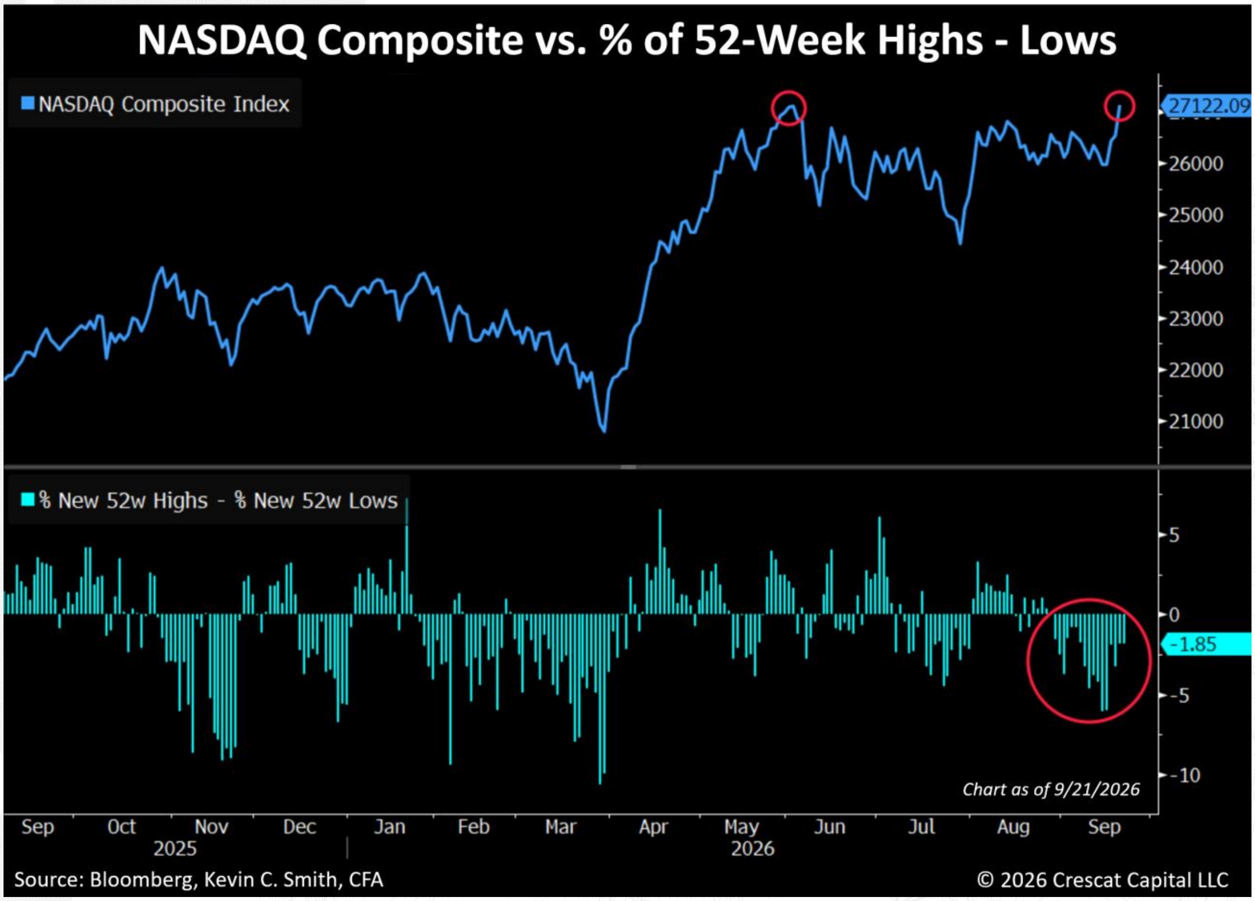
September 22, 2026

Market Warning Signs

We showed in prior letters that the US stock market has recently reached all-time high valuations across a variety of dimensions. Now, the market is flashing warning signals of a potential major market top based on a variety of divergent technical and cross-market indicators. We show four of these in this letter:

New 52-week Highs vs. Lows Chart

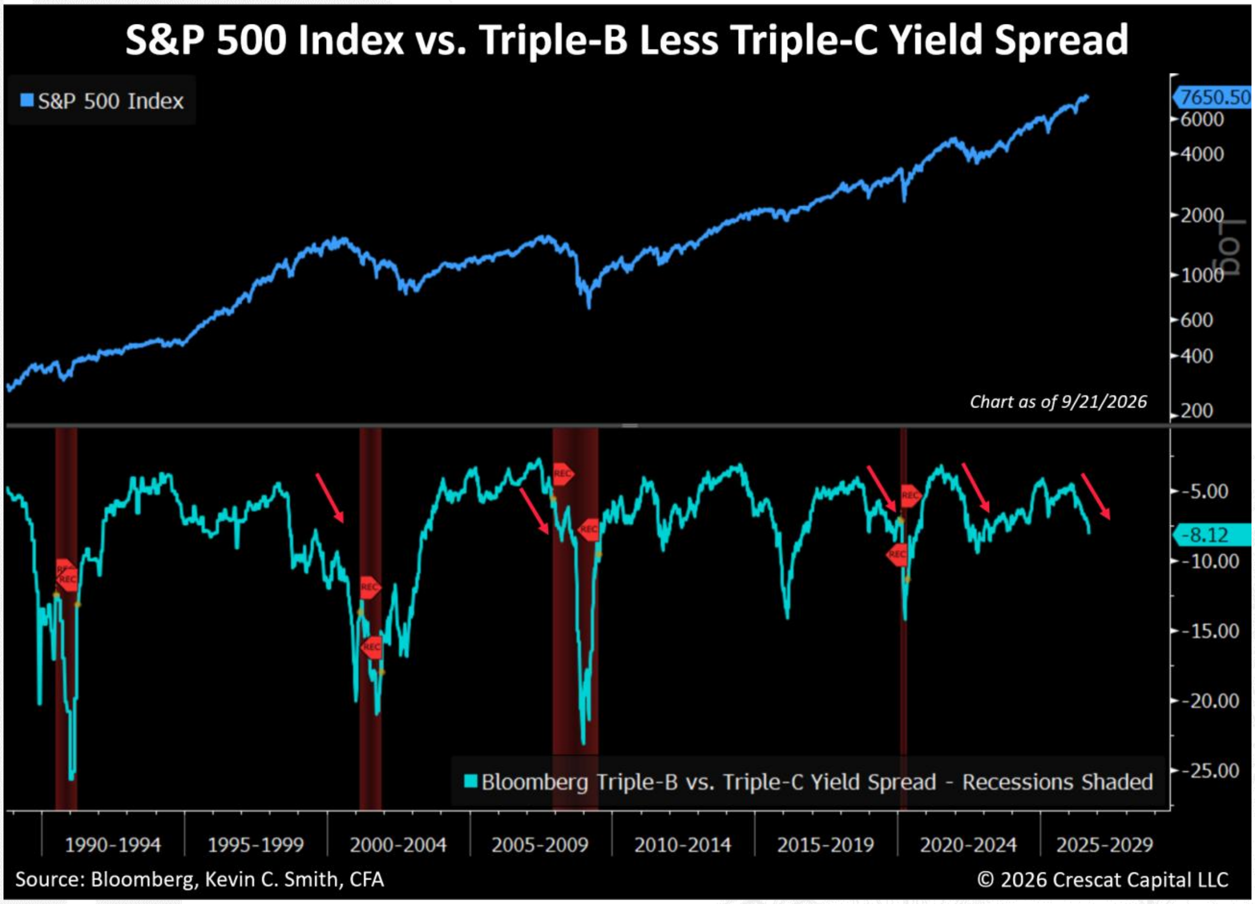
Normally, when a stock market index goes up and down, the underlying stocks reaching new 52-week highs minus those hitting new 52-week lows go up and down, in sync. One can see that relationship most of the time in the NASDAQ Composite chart below over the last year. Recently, however, it's been the opposite. This index just closed at a marginal new all-time high, while the underlying stocks hitting new lows have exceeded those hitting new highs for 17 days straight. Weak, non-confirming market internals can signal a major market top. In this case, a narrow group of large stocks has driven the overall index return to new highs without confirmation from its underlying components.



Widening CCC vs. BBB Credit Spreads

Credit markets are generally quicker to pick up on deteriorating corporate cash flows than equity markets. While the S&P 500 Index has been hitting new all-time highs over the past six months, US triple-C credit spreads relative to triple-B have widened significantly over the same time, another non-confirming divergence, which we show in the chart below. Similar warning signals of a pending stock market downturn from this indicator can be seen in the same chart historically:

1. A divergence in credit spreads vs. the 2000 tech bubble and stock market top;
2. Trends and levels consistent with the very beginning of the last two major stock market meltdowns and recessions: the 2008 Global Financial Crisis and the 2020 Covid recession; and
3. Deterioration consistent with the 2022 bear market.

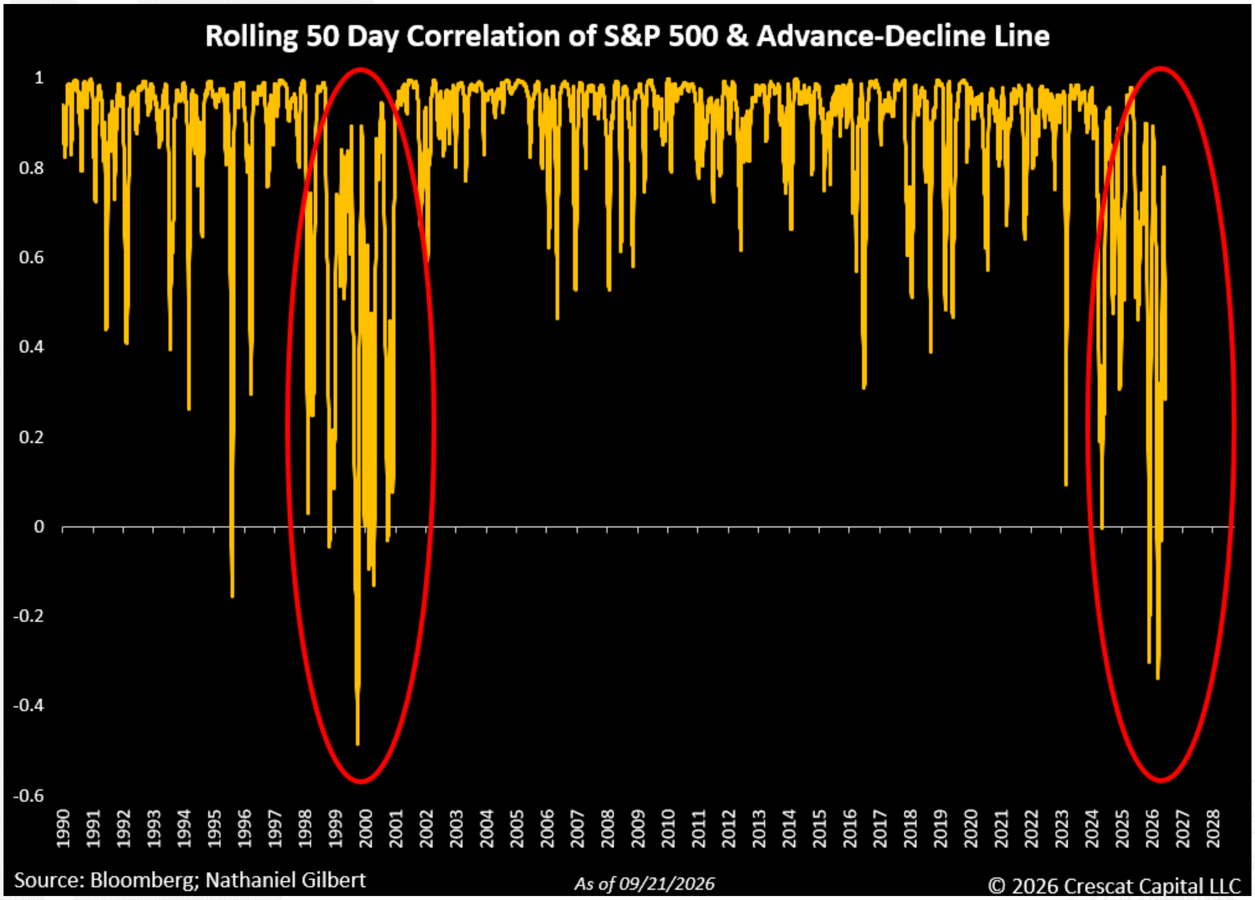


Recent Negative Correlation of the Advance-Decline Line vs. S&P 500

The advance-decline line is a plot of the cumulative sum of daily differences between the number of issues advancing and those declining for a given market index. In capitalization-weighted stock indices, such as the S&P 500, price changes of larger market-cap stocks will have larger effects on index returns. The advance-decline line can provide insight regarding the number of individual stocks participating in a market rally or decline.

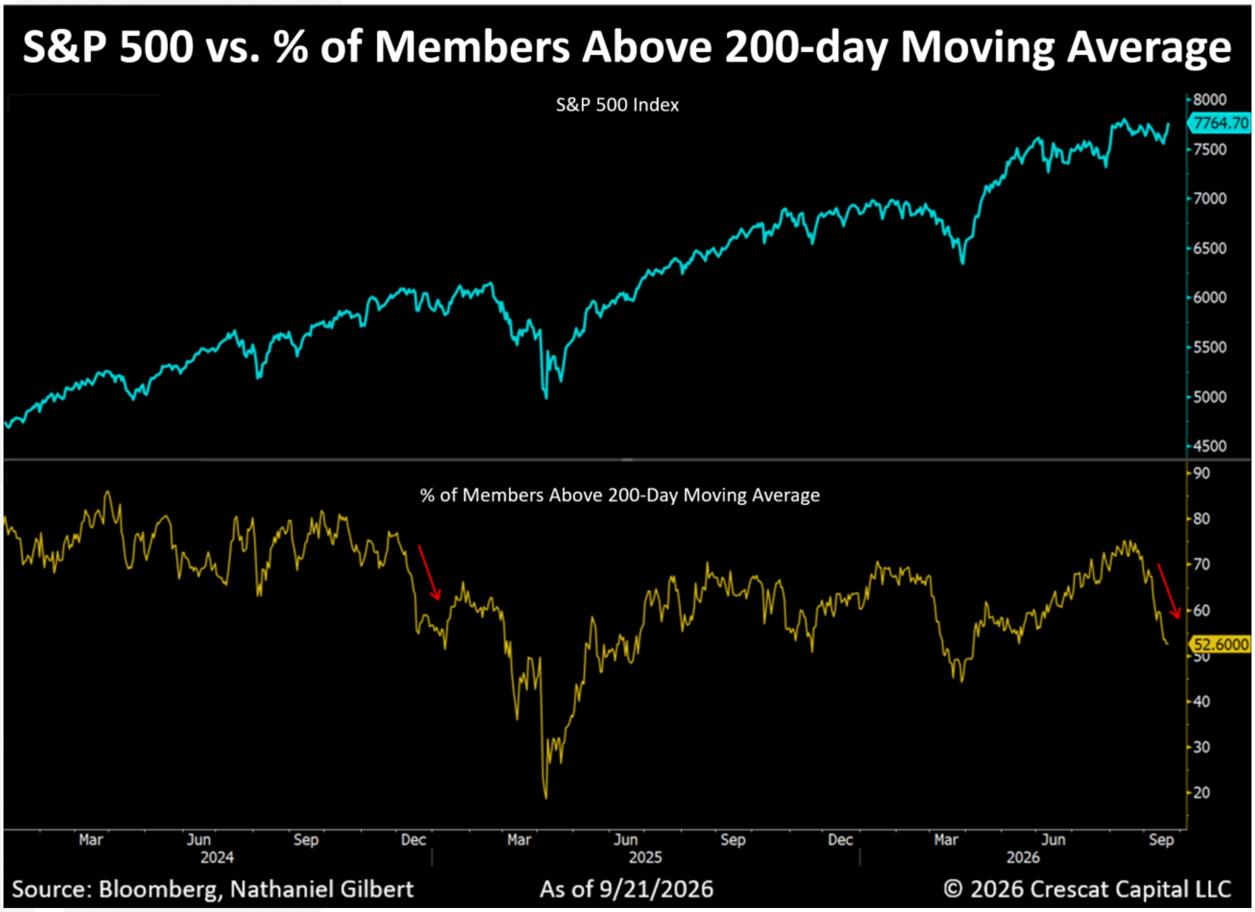
Divergence occurs when the underlying index moves in one direction and the advance-decline line for that index moves in the opposite direction. When the advance-decline line is moving down while the underlying index pushes higher, one begins to question the true health and direction of the market.

Below is a chart showing the rolling 50-day correlation between the S&P 500 and its cumulative advance-decline line. Over 2026, we have seen their relationship weaken substantially and even turn negative. The last time we saw such divergence was during the peak of the Dotcom bubble.



S&P 500 Deterioration of Members Trading Above 200-day Moving Average

The percent of members in the S&P 500 trading above their 200-day averages has plunged over the past month, as we show in the chart below, even as the index itself has remained relatively flat, near all-time highs. This divergence points towards a breakdown in market breadth despite apparent top-line stability. Again, performance is becoming increasingly concentrated among a small group of megacaps. As one can see in the chart, a similar setup emerged in the lead-up to Liberation Day (April 2nd, 2025), where technicals began to weaken before the broad market selloff. Selling pressure and risk reduction were already building beneath the surface ahead of the tariff announcement. The tariff announcement was the spark that lit the fire.



The Perfect Hedge

What do we see as the perfect hedge for today's stock market? While no hedge is perfect, to us it means positioning for what we believe offers the strongest potential risk-adjusted outperformance, or alpha, relative to the S&P 500.

Today, we believe that opportunity is in gold. More specifically, we see even greater alpha potential in Crescat's diversified activist precious and critical metals exploration strategy. Junior mining exploration carries significant operational and market volatility, but we believe it offers substantially better value and long-term growth potential than gold itself. That is where our precious metals hedge funds are focused.

For investors seeking to capitalize on both a potential top in US large-cap stocks and further upside in gold, we believe our macro and long/short funds offer a compelling approach. These strategies combine our activist metals positions with a put-option portfolio currently focused on the S&P 500.

With S&P 500 implied volatility remarkably low today, we view puts as relatively inexpensive portfolio insurance with asymmetric upside in the event of a major market decline. Options can, of course, expire worthless, but at current pricing, we believe the potential payoff relative to the cost is especially attractive.

Crescat's Activist Metals Portfolio

We have built and refined a portfolio of mining companies over the last six years with advice from two seasoned PhD economic geologists. Our strategy has been largely focused on getting in early in the exploration segment of the mining industry, where we can acquire activist stakes in early-stage companies with secure land packages and highly prospective precious and critical metal discovery targets. We balance the risk and potential reward through a broad, globally diversified portfolio.

By getting money to these companies for drilling, largely through PIPE deals with discounts and warrants, over this time, we have and continue to help them create many of the world's largest new gold, silver, and copper discoveries with tier-1 development potential. Through our participation rights and future financing rounds, we have continued to support our most prospective companies and remain among the largest shareholders in these companies as they grow.

We believe our portfolio is cheap relative to the new metal value that has been created. The market does not appreciate this yet, neither on an individual company basis nor collectively when it comes to the value of our highly curated portfolio. Realizing that value, however, depends on continued exploration and development success, access to capital, and ultimately greater recognition of these discoveries. This critical but misunderstood segment of the mining industry gives what we see as ample opportunities to deploy new capital into existing and new portfolio companies with potential for future returns. This is how we expect to deliver alpha as we march toward our $20,000 price target for gold over the next 3 to 7 years. For the macro case, see our recent letter, ***The Price Target for Gold.***

Opportunity in the Pullback

Our funds delivered strong performance in August, as shown in the table below. While we are encouraged by the recent performance, we believe there is much further to go. We are now seeing a pullback this month, which we think is creating another timely opportunity to invest.

We remain confident that we are still early in a major bull market for precious metals and mining companies, particularly the exploration and development-stage companies where we are heavily focused. We have great places to put new capital to work today, including several new mining deals. For new investors considering an investment or existing investors looking to add to their allocations, we believe the current pullback presents an attractive opportunity to put money to work. Please reach out to the contact information below if you are interested.

Performance Estimates Through August 2026

Crescat Strategies Estimated Net Returns Through August 31, 2026

CRESCAT STRATEGIES	AUGUST	YTD	ANNUALIZED TRAILING 1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION	CUMULATIVE SINCE INCEPTION	YEARS SINCE INCEPTION
Global Macro Hedge Fund (Jan.1, 2006)	**13.0%**	**-0.7%**	**25.9%**	**21.4%**	**9.7%**	**7.7%**	**11.3%**	**813.6%**	**20.7**
Excluding SCM SP[2] (Jan.1, 2006)	**19.8%**	**-15.1%**	**-7.0%**	**10.3%**	**3.6%**	**4.6%**	**9.8%**	**585.4%**	**20.7**
Benchmark: HFRX Global Hedge Fund Index	0.8%	4.4%	7.4%	6.2%	3.0%	3.5%	1.7%	42.2%	
Institutional Macro Hedge Fund (July 1, 2023)	**14.1%**	**-1.5%**	**24.3%**	**19.2%**	**-**	**-**	**13.0%**	**47.4%**	**3.2**
Excluding SCM SP[2] (July 1, 2023)	**21.2%**	**-14.0%**	**-6.7%**	**8.7%**	**-**	**-**	**3.6%**	**11.9%**	**3.2**
Benchmark: HFRX Global Hedge Fund Index	0.8%	4.4%	7.4%	6.2%			6.1%	20.6%	
Long/Short Hedge Fund (May 1, 2000)	**12.2%**	**-1.4%**	**27.4%**	**23.1%**	**7.1%**	**6.9%**	**7.7%**	**605.2%**	**26.4**
Excluding SCM SP[2] (May 1, 2000)	**21.2%**	**-17.1%**	**-7.1%**	**11.4%**	**0.8%**	**3.7%**	**6.5%**	**421.7%**	**26.4**
Benchmark: HFRX Equity Hedge Index	1.4%	7.9%	11.2%	9.6%	6.2%	5.8%	3.4%	140.3%	
Precious Metals Hedge Fund (August 1, 2020)	**13.8%**	**11.3%**	**53.3%**	**38.2%**	**14.3%**	**-**	**33.4%**	**477.6%**	**6.1**
Excluding SCM SP[2] (August 1, 2020)	**23.5%**	**8.6%**	**32.4%**	**33.4%**	**11.9%**	**-**	**31.1%**	**419.9%**	**6.1**
Benchmark: Philadelphia Gold and Silver Index	32.5%	20.0%	65.0%	53.3%	26.9%		19.1%	189.9%	
Institutional Precious Metals Hedge Fund (July 1, 2023)	**15.4%**	**8.3%**	**49.7%**	**33.0%**	**-**	**-**	**28.9%**	**123.5%**	**3.2**
Excluding SCM SP[2] (July 1, 2023)	**22.4%**	**4.7%**	**28.1%**	**28.3%**	**-**	**-**	**24.6%**	**100.8%**	**3.2**
Benchmark: Philadelphia Gold and Silver Index	32.5%	20.0%	65.0%	53.3%			49.1%	255.2%	

Crescat Precious Metals Fund and Global Macro Fund are closed to new US investors.

Sources: HFR, Inc., NASDAQ, and Crescat Capital LLC. Past performance does not guarantee future results; Investing involves risk, including risk of loss. See additional important disclosures below.

Sincerely,

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Performance data represents past performance, and past performance does not guarantee future results. *Performance data, including Estimated Performance, is subject to revision following each monthly reconciliation and/or annual audit. Individual performance may be lower or higher than the performance data presented. The currency used to express performance is U.S. dollars. Before January 1, 2003, the results reflect accounts managed at a predecessor firm.* ***Crescat was not responsible for the management of the assets during the period reflected in those predecessor performance results. We have determined the management of these accounts was sufficiently similar and provides relevant performance information.***

Net returns reflect the performance of an investor who invested from inception and is eligible to participate in new issues and side pocket investments. Net returns reflect the reinvestment of dividends and earnings and the deduction of all expenses and fees (including the highest management fee and incentive allocation charged, where applicable). An actual client's results may vary due to the timing of capital transactions, high watermarks, and performance.

2 – Performance figures presented Excluding SCM SP represent the fund's net returns calculated without the impact of the San Cristobal Mining, Inc. side pocket that was designated on July 1st, 2024. The side pocket includes a private equity asset that is not available to new investors in the funds on or after July 1, *2024. Excluding these assets provides a clearer view of the performance to investors coming into the funds after that date. New investors cannot participate in the SCM Side Pocket and will not share in its potential gains or losses. Investors should consider both the overall performance and the performance excluding the side pocket when evaluating the fund's returns.*

Benchmarks

*The **HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.*

***The HFRX Equity Hedge Index** measures the performance of the hedge fund market. Equity hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.*

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***The PHLX Gold/Silver Sector Index (XAU)** is a capitalization-weighted index composed of companies involved in the gold or silver mining industry.*

Returns for any index include the reinvestment of income and do not include transaction fees, management fees or any other costs. The performance and volatility of the funds will be different than those of the indexes. One cannot invest directly in an index. Benchmarks are unmanaged and provided to represent the investment environment in existence during the time periods shown.

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