

# Regimes Are Changing

Written By: **Jim Brilliant**, CFA, Co-Chief Investment Officer, Portfolio Manager

As we move into the second month of 2026, one theme continues to stand out above the rest: the global economic model that defined the past several decades is steadily giving way to something new.

For years, growth was built on globalization, low-cost labor, just-in-time supply chains, offshoring of critical industrial capacity, abundant leverage, and relatively modest defense spending. That framework delivered efficiency and lower prices, but it also

embedded fragilities that only became obvious under stress. The COVID-19 shock exposed just how dependent the United States had become on foreign supply chains - particularly China - for essential inputs such as critical metals, industrial magnets, and pharmaceuticals.

In response, global trade is now beginning to shift away from maximum interdependence to regionalization and self-reliance. In the U.S., this transition is being reinforced by efforts to narrow persistent trade and budget deficits while rebuilding domestic manufacturing capacity. As supply chains shift, alliances and strategic priorities naturally adjust with them. That process is rarely smooth. Periods of transition tend to elevate geopolitical risk and sharpen the connection between economic strength, industrial capacity, and national security.

We are already seeing visible signs of this strain. Around the world, political systems and institutions are being tested. Tensions have intensified across multiple regions - from renewed unrest in Iran, to heightened focus on Arctic and Greenland security, to China's expanding military activity around the Taiwan Strait. These developments may appear disconnected on the surface but taken together they reflect a broader recalibration underway in global power, trade, and security.

## Contributions From:

**Arnold Van Den Berg**,  
*Founder, Co-Chief Investment Officer*

**Bill Brilliant**,  
*Fixed Income Portfolio Manager*

**Scott VanDenBerg**,  
*CFP®, ChFC®, CEPA®, AIF®, President*

**Aaron Buckholtz**,  
*CFA, Portfolio Manager, Director of Trading*

**Greyson Brilliant**,  
*CFA, Senior Equity Analyst*

In this letter, we outline the macro transition we believe is unfolding and what it could mean for the U.S. economy, inflation, interest rates, and portfolio construction. This is not intended to be political commentary. It is an analytical framework designed to separate meaningful trends from noise and focuses on the structural forces shaping markets over the coming years.

We strive to protect and grow the capital you have entrusted to us. Political preferences belong in the voting booth. Our focus remains squarely on understanding risk, anticipating change, and positioning portfolios accordingly.

What follows is our assessment of what may ultimately prove to be the most significant shift in global trade, geopolitics, and the U.S. economic framework since Bretton Woods - the 1944 conference that reshaped the postwar world by establishing the U.S. dollar as the global reserve currency and defining the rules of modern trade and finance.

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When we talk about a “regime change,” we don’t mean it in the dramatic, headline-driven sense of governments falling overnight. Instead, we’re describing something quieter but just as consequential: a shift in the underlying rules, incentives, and structures that guide how economies, markets, and institutions behave.

Regime changes tend to happen when an old system is stretched too far for too long. What once worked efficiently becomes rigid, fragile, and increasingly costly to maintain. At first, those inside the system resist change - often because the existing setup still benefits them, or because alternatives feel risky. But over time, pressures accumulate - Debt builds. Supply chains weaken. Productivity stalls. Risks that once seemed theoretical begin to feel real. Eventually, adapting is no longer optional and change becomes a necessity, not a preference.

That is the lens through which we view the current moment.

For decades after the Cold War, globalization delivered meaningful gains: lower costs, wider choice, and strong corporate profitability. But it also created vulnerabilities that were easy to ignore when conditions were calm. Over time, the cracks widened with debt levels rising across households, corporations, and governments. Domestic manufacturing capacity eroded. Energy systems have become more fragile. Defense readiness slipped. Inequality widened, social cohesion weakened, and supply chains for critical inputs - from medicines to industrial materials - became increasingly dependent on a narrow set of foreign producers.

At the same time, government itself became more complex and slower moving. Layers of rules accumulated, but few were removed. Decision-making slowed, capital became trapped in planning phases, and the cost of building anything - from housing to power infrastructure - rose sharply. Addressing these weaknesses now requires rebalancing toward durability and strength: healthier public finances, simpler and faster governance, stronger domestic capacity, higher productivity, and better-quality growth.

One way to think about this is to imagine the United States as a very large, very successful company - “**USA Inc.**”

USA Inc. is a massive enterprise with extraordinary strengths: unmatched scale, deep capital markets, strong institutions, global reach, and a powerful innovative engine. But long periods of success can also breed complacency. Bureaucracy grows and incentives dull. Capital gets misallocated with critical parts of the core enterprise - like manufacturing capacity or infrastructure -being neglected. Combined with higher costs and rising debt, USA Inc is left even more exposed to competition and economic shocks.

From this perspective, the current shift in policy looks less like a political experiment and more like a corporate reorganization. Trade policy is being used to reshape “sales and sourcing” decisions. Supply chains are being redesigned to reduce vulnerability and improve reliability. Domestic manufacturing and strategic inputs are receiving renewed investment. Tax policy, subsidies, and regulatory reforms are being used to encourage managers and workers - companies and households alike - to invest, build, and innovate at home.

A key objective of this reorganization is to improve “speed to market”. Shorter permitting timelines, clearer rules, and fewer duplicative requirements allow capital to move more quickly from planning to production. Partnerships are also being reconsidered, with greater emphasis on improved cost sharing responsibility for security, infrastructure, and supply-chain guarantees.

If this effort succeeds, the “profit-sharing” benefits show up over time in higher real wages, lower unit costs, and stronger productivity. The aim is not to suppress incomes, but to grow overall output through better technology, automation, logistics, and scale. That sets the stage for a healthier, more durable economy.

How smoothly this transition unfolds depends heavily on the monetary and credit environment.

Since the financial crisis of 2008–2009, the Federal Reserve has played an unusually large role in shaping markets. Through asset purchases, forward guidance and balance-sheet management, it became the central mechanism through which liquidity and risk were managed. At the same time, post-crisis regulations raised the cost of bank balance sheets, reducing private-sector market-making and credit intermediation. The result was a system more reliant on central bank action during periods of stress.

Today, with public debt levels high and interest expense structurally larger, the system has less room for repeated policy extremes. Monetary policy remains important, but its role is evolving. The emphasis is increasingly on preserving stability - ensuring markets continue to function and liquidity remains available - rather than attempting to precisely manage economic growth through aggressive or frequent interventions.

The recent announcement of Kevin Warsh as a proposed nominee for Federal Reserve Chair has been received positively by markets, reflecting the growing concern over elevated public debt levels and the long-term credibility of monetary policy. While the appointment has not yet been confirmed, Warsh’s background and prior experience at the Federal Reserve suggest a leadership style more attuned to financial stability, balance-sheet discipline, and the interaction between fiscal realities and monetary policy.

If confirmed, his tenure could mark a shift toward a more pragmatic framework - one that prioritizes market functioning and credibility over aggressive policy experimentation - potentially supporting the overall health and durability of the U.S. monetary system.

As balance-sheet runoff slows and reinvestment becomes the norm, the steady drain on liquidity eases. Even without a return to formal quantitative easing, this stabilization reduces the risk of funding stress and helps financing costs normalize. If policy rates drift closer to neutral over time, it also supports housing, business investment, and other credit-sensitive areas of the economy.

Alongside these changes, a new source of dollar liquidity is quietly emerging:  
**Stablecoins**

These private sector “digital dollars” are designed to maintain a stable value (often \$1) and are typically backed by high-quality, short-term government securities like Treasury bills. They are not speculative cryptocurrency assets such as Bitcoin or “altcoins”. Their role is more practical - allowing dollar-backed liquidity to move quickly across modern payment systems. At scale, stablecoins could increase structural demand for short-term Treasuries and subtly reshape how money moves through the financial system. That said, tradeoffs remain. As usage grows, oversight, design, and integration with the banking system will matter, especially during periods of market stress.

Another underappreciated force in this transition is regulation itself. Speed has become an economic variable. Long approval timelines and unpredictable rules raise costs and discourage real investment. Reducing regulatory friction - without sacrificing safety or standards - can materially improve economic throughput. In practical terms, shorter permitting cycles reduce the time capital is trapped in pre-revenue development phase and lowers the hurdle for housing, energy infrastructure, manufacturing, data centers, and even financial-market intermediation.

If USA Inc can build faster and capital turns faster, growth and earnings tend to follow.

U.S. economic policy is increasingly being designed to make domestic investment economically viable again. There is a combination of pressure, incentive, and support: measures that price in strategic risk, policies that raise after-tax returns on building at home, and public-private investments that make reshoring durable rather than symbolic.

Households may feel this through higher take-home pay and improved liquidity. Lower taxes should lift take-home pay and improve baseline household liquidity over the coming year. Some estimates also suggest many households did not fully adjust withholding amounts after last year's policy change, raising odds of a larger refund season. Estimates range from roughly \$100-\$150 billion above the prior filing season's approximate \$329 billion. This is cash that can bolster deposits, support spending, or help pay down revolving debt.

Businesses may feel it through changes in accelerated depreciation and stronger R&D incentives that can raise after-tax cash flow - improving internal funding capacity to invest in supply-chains, automation, energy, and digital infrastructure.

There are tradeoffs. Rebuilding can raise costs in the near term and keep inflation risk elevated. But over time, productivity gains and expanded capacity may offset those pressures. Our base case is inflation that remains contained but somewhat stickier than in the past.

On the geopolitical front, a parallel reset is underway. Defense policy is refocusing on credible deterrence, force readiness, and the expansion of industrial capacity, alongside clearer lines aimed at preventing extra-hemispheric powers from establishing footholds in the Western Hemisphere and other strategic approaches, including the North Atlantic and Arctic corridors. While this shift implies higher near-term defense spending and sustained political attention, the objective is stability - raising the cost of conflict in order to reduce the probability of confrontation.

**For investors, this backdrop has clear implications.**

We expect earnings growth to continue in 2026 and broaden beyond a narrow group of technology leaders. Activity tied to “Build USA Inc” include:

- industrial expansion and reshoring
- electrification and grid investments
- data-center construction and enterprise compute
- factory automation and logistics modernization
- defense technology and supply chain replenishment
- selective financial services with deposit growth and selective loan expansion

With respect to sector leadership, the likely beneficiaries in our view are:

- Technology: tied to data-center supply chain, fiber, semis, on-prem servers
- Energy: linked to power demand and energy security (gas/power-adjacent buildout)
- Industrials: tied to capex, automation, and logistics
- Materials: tied to construction/manufacturing and strategic inputs
- Financials: select, where balance-sheet capacity benefits from stabilization
- Defense/Aerospace: readiness, munitions, industrial base expansion

Areas most at risk are those heavily dependent on imports, labor-intensive enterprises without productivity offsets, or those lacking pricing power.

As we briefly touched on earlier, inflation risks have not disappeared, and long-term interest rates are likely to remain volatile. An additional potential risk worth monitoring is a globally colder-than-normal winter that exposes the fragility of renewable-heavy systems and insufficient baseload power - potentially pushing energy prices higher adding to inflationary pressure.

Supported by term premium tied to fiscal supply and inflation uncertainty, returns in fixed income may be driven more by income than by falling yields, with shorter durations favored over longer ones.

From a portfolio perspective, we believe a disciplined approach emphasizing quality, valuation, strategic sector positioning, and individual security fundamentals is key.

## Technology

We believe investment by hyperscalers in data centers and large language models can continue, providing a durable foundation for the next phase of AI adoption. At the same time, we expect enterprises to move beyond limited pilot programs and into tailored, company-specific deployments, supported by growing demand for on-premises AI servers and a PC refresh cycle that has proven stronger than expected. As this transition unfolds, AI leadership is broadening beyond the “Magnificent 7,” driving demand across the full technology stack—from semiconductors and servers to robotics, optics, fiber networks, and power electronics.

## Energy

We remain optimistic about oil and gas investments. In our view, decades of emphasis on electrification and energy transition contributed to sustained underinvestment in new oil supply. At the same time, demand has proven more durable than widely expected, raising the risk that spare capacity will tighten if growth continues. While the International Energy Agency (IEA) is once again projecting a significant surplus, we believe those forecasts rest on optimistic assumptions rather than evidence of a clear or lasting demand slowdown.

Natural gas demand also continues to trend higher, supported by several durable drivers. Estimates suggest that data-center expansion alone could lift U.S. gas consumption by 10-15% over the next five years as power requirements for compute and cooling grow. At the same time, regions with electricity grids heavily weighted toward renewables have shown greater vulnerability during severe winter events, reinforcing the ongoing importance of reliable baseload energy supply.

From a valuation perspective, natural gas also appears compelling alongside oil. On an energy-equivalent basis, crude oil is currently trading at more than eighteen times the price of natural gas - well above the roughly six-to-one ratio that reflects simple thermal parity. At \$64 oil, natural gas would need to trade closer to \$10.66 per MMBtu to achieve full energy equivalence. While this comparison is intentionally simplified - and historical “shale era” ratios have ranged widely, from roughly 8:1 during supply crunches to over 40:1 during periods of glut - the long-term average has been closer to 20:1. At today’s roughly 18:1 ratio, natural gas is priced near its historical average relative to oil, yet remains meaningfully undervalued on a pure energy-content basis.

## Industrials

We see improving prospects for industrial firms that are directly leveraged to infrastructure expansion, reshoring, automation, and productivity-enhancing capital investment. As supply chains are rebuilt and domestic capacity expands, demand is rising for equipment, components, engineering services, and systems that increase efficiency, reduce labor intensity, and improve reliability. At the same time, investment in transportation, energy, grid modernization, and manufacturing facilities are creating multi-year visibility for industrial backlogs. Companies positioned to enable faster build-out, lower operating costs, and higher output per worker are likely to benefit as capital spending shifts from maintenance toward expansion and modernization.

## Materials

We hold a positive outlook for the materials sector as the global economy shifts from cost optimization toward capacity building and security of supply. Infrastructure expansion, manufacturing reshoring, energy investment, and defense rebuilding are all material-intensive, supporting sustained demand for metals, aggregates, chemicals, and specialty inputs. At the same time, years of underinvestment and tighter permitting have constrained new supply, supporting pricing discipline for well-positioned producers. Companies tied to domestic production, critical inputs, and value-added processing are likely to benefit as policy incentives, capital spending, and strategic priorities converge around building more durable industrial foundations rather than simply sourcing the lowest-cost materials globally.

## Financials

We see selective opportunities within financials, particularly in health insurance and reinsurance. These business models benefit from the ability to reprice risk regularly through annual contract cycles, which provides a natural mechanism to adjust premiums as medical costs, claims trends, and broader inflation evolve. In an environment where input costs and risk assumptions can shift year to year, this pricing flexibility helps protect margins and supports more stable underwriting results. For well-managed firms with disciplined risk selection and strong balance sheets, this dynamic can translate into resilient earnings and improved capital returns over time.

## Gold

Gold remains a core strategic hedge against inflation, currency debasement, and periods of financial instability. In an environment characterized by elevated public debt, persistent fiscal deficits, and a monetary framework that is increasingly constrained, gold serves as a form of insurance against policy error and the gradual erosion of real purchasing power.

We maintain our primary exposure through physical bullion, which offers direct ownership without reliance on financial intermediaries or counterparty structures. This approach provides clarity and liquidity, particularly valuable during periods of geopolitical stress, declining confidence in financial assets, or negative real interest rates.

We intend to maintain a proportional allocation until there is credible evidence that global debt burdens are being meaningfully addressed and placed on a more sustainable footing. Previously mentioned monetary restructuring in the United States represents one such inflection point, and we are monitoring these developments closely as part of our ongoing assessment of systemic risk and long-term portfolio protection.

## The Bottom Line is This

If the current regime changes persist, the setup is constructive. Liquidity is stabilizing, credit transmission is improving, and incentives are shifting toward real investment and productivity. That creates the conditions for broader earnings growth and a market leadership that extends well beyond a handful of dominant names.

As we discussed in [\*\*\*What Does the Price-Earnings Multiple Really Tell Us?\*\*\*](#) - the S&P 500 is entering this next phase from a valuation starting point near the upper end of its historical range. As a result, future index returns are likely to be driven more by underlying earnings growth than by further multiple expansion. In this environment, we believe disciplined stock selection becomes increasingly important as market leadership broadens and dispersion across sectors and companies rises.

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**Questions? Reach out to the [Century Management Team](#).**

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