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Macro
Memo

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Secular vs Cyclical Trends

Signal vs Noise in Financial Markets

Financial media is in the business of creating noise. Media depends on constant audience consumption for its revenue, which naturally incentivizes a focus on short-term cyclical developments. However, investors tend to benefit far more by focusing on long-term secular trends.

Cyclical trends typically unfold over weeks or months. Secular trends are larger and longer in duration, often persisting for years or even decades. Identifying enduring signals within the noise is critical to long-term investment success. True signals tend to remain consistent yesterday, today, and tomorrow.

MarketWatch, a sister publication of the Wall Street Journal, recently ran the headline “Gold Prices Tumble Below \$5000”¹, suggesting that this development was significant for investors. What the article did not emphasize was that only a year earlier gold had broken above \$3000 per ounce for the first time in history. The question investors should ask is simple: is this headline an enduring signal or simply noise?

The Secular Case for Hard Assets

This distinction matters because some media commentary now suggests the recent move in precious metals, and hard assets more broadly, has run its course. We disagree with that assertion.

In our view, understanding the secular forces behind the recent surge in hard asset prices can



Photo by James Thomas on Unsplash

help reinforce confidence in holding them as a core component of a diversified portfolio. These forces include the **capital cycle** (highlighted in our December 2025 Memo), **historical valuations** (discussed in our January 2026 Memo), and the demands of **fiscal dominance** (highlighted in our November 2024 Memo). Together, these three forces continue to support the case for a secular bull market in hard assets. Importantly, each of these forces possess characteristics that suggest the trend could persist for years to come.

The Capital Cycle

Capital cycles describe the ebb and flow of investment dollars into long-term productive assets. Businesses generally face two categories of expenses: operating expenses, which are realized in the year they are incurred (such as payroll), and capital expenses, which represent investment in long-term productive assets.

Capital cycles follow a simple but powerful pattern: money flows toward what's working until it works too well. When an investment idea gains attention, capital floods into the sector. Companies expand capacity, new competitors enter the market, and production ramps up. At first this growth appears profitable and exciting.

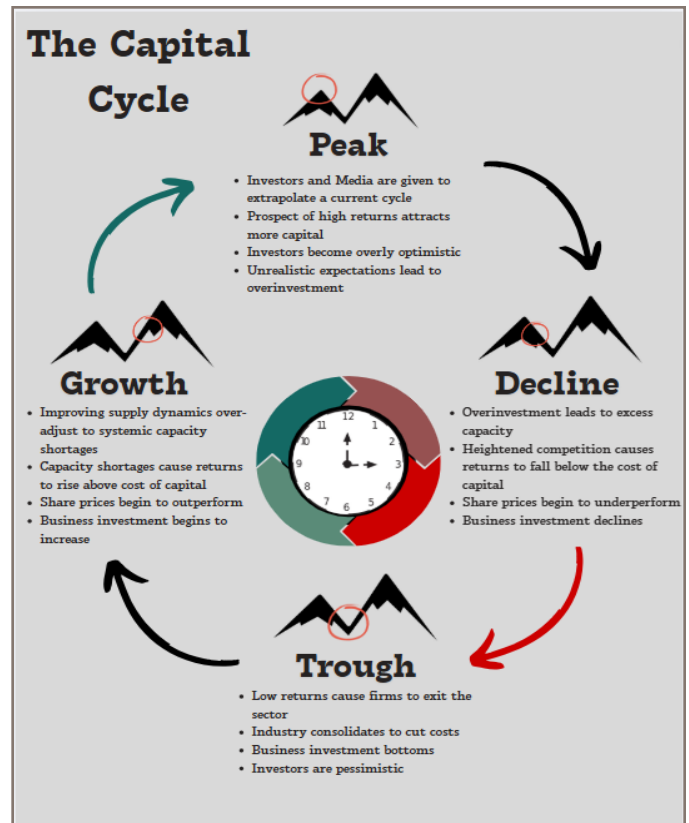
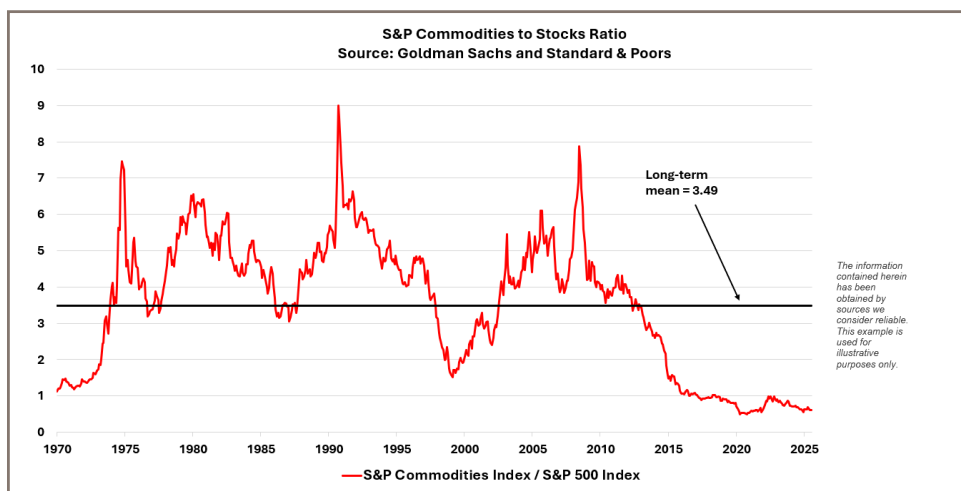
Eventually, however, too much capital leads to too much supply. Prices fall, profits shrink, and investment returns disappoint. Capital then retreats, weaker firms exit the market, and capacity is reduced. Over time, supply tightens again. When demand returns, pricing improves, profitability recovers, and the cycle begins anew.

Capital expenditures among hard asset producers have declined by more than 50% over the past decade, placing the sector at what appears to be an attractive point in the capital cycle².

Hard Assets vs Financial Assets

Another important factor supporting the secular case for hard assets is valuation.

Currently, hard assets trade at historically low levels relative to financial assets. The chart below shows the relationship between the S&P Commodity index (representing hard assets)



and the S&P 500 Index (representing financial assets). The ratio highlights both the impact of the capital cycle and the unusually attractive relative valuation currently present in hard asset markets.

Fiscal Dominance

A third structural force shaping the investment landscape is fiscal dominance, a concept that receives little discussion in mainstream financial media.

Fiscal dominance describes an environment in which monetary authorities, including the Federal Reserve and the U.S. Treasury, are effectively forced to prioritize the sustainability of government debt over the pursuit of traditional sound monetary policy.

The U.S. federal debt as a percentage of GDP is approximately 122%, which now exceeds the 120% peak of

World War II³. In 2025, annual interest expense alone surpassed \$1 Trillion, exceeding the entire budget of the War Department. Read that again. The current conflict with Iran only adds further pressure to already elevated deficit and debt levels.

Policy Responses to Fiscal Pressure

One way to understand this challenge is to think of the United States as a business facing a large debt burden. There are two broad ways to address this issue: through fiscal policy or through international trade.

On the fiscal side, the government could theoretically cut spending or raise taxes. However, the current administration has recently passed tax cuts, making higher taxes politically unlikely. The largest areas of potential spending reductions (Social Security, Medicare, defense, and interest expense) are each politically constrained. Entitlement programs have long been considered the “third rail” of politics, and recent hostilities with Iran make defense cuts improbable.

This leaves interest rates as one of the few remaining levers.

While interest payments may appear predetermined, there is historical precedent for capping interest rates⁴. Following World War II, Treasury yields were held artificially low for several years to help reduce the real burden of federal debt through inflation⁵. A similar policy response may become increasingly likely in today’s fiscal environment.

Another potential path involves increasing U.S. exports to attract foreign capital. Achieving this would likely require a weaker dollar, which would improve the competitiveness of American goods in global markets.

Persistent deficit spending that exceeds

nominal GDP growth tends to weaken the currency over time. Similarly, capping Treasury yields would exert downward pressure on the dollar. Pulling both levers simultaneously could accelerate that process. Given the constraints discussed above, a dual lever approach may represent the most realistic policy response to the current fiscal challenges.

Sector Rotation Within a Secular Bull Market

Taken together, the capital cycle, valuation dynamics, and fiscal dominance support the view that hard assets are experiencing a secular bull market rather than a short-term cyclical move. However, hard assets, like equities, consist of multiple sectors. Precious metals, base metals, energy, and agriculture move through their own cyclical patterns within the broader secular trend.

A useful analogy is the cycling paceline pictured at the top of this memo: a group of six riders traveling in single file, closely drafting behind one another. Each cyclist periodically rotates to the front, pulling into the wind before falling back into the line. By sharing the workload, the group maintains a faster speed with less total effort than if each rider were traveling alone.

A secular bull market often behaves the same way. Leadership rotates between sectors over time. Different sectors may lead for a period while others consolidate and build energy for a possible turn in the lead. The following chart illustrates this dynamic, showing how leadership has progressed from gold, to copper, to energy, and now toward agriculture.

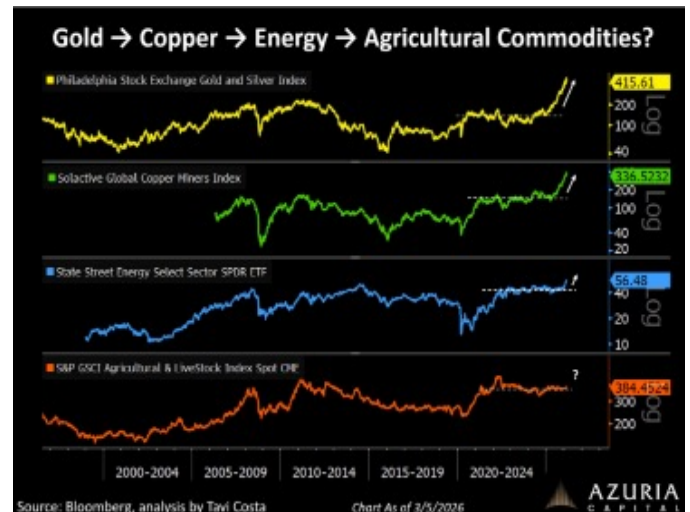
Final Thoughts

For investors already positioned in hard assets, the secular backdrop suggests further

runway ahead and that holding existing positions, rather than selling, is the prudent option.

For those who have not yet added exposure, the forces discussed in this memo indicate this secular trend still has room to run and it is not too late to get on board.

As always, if you would like to discuss how these themes may apply to your investment strategy, we are happy to explore both the opportunities and the risks in greater detail.



¹ <https://www.marketwatch.com/story/gold-prices-tumble-below-5-000-as-china-holidays-dent-support-d093e677>

² Source: U.S. Bureau of Economic Analysis via FRED®

³ Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®

⁴ A form of Yield Curve Control (YCC)

⁵ The U.S. Federal Reserve implemented a form of yield curve control starting in 1942 to help the Treasury finance World War II debt by capping interest rates across different maturities, from a low of 3/8% on T-bills to 2.5% on long-term bonds, a policy that lasted until 1951.

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