# Investment Policy

March 2025

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CAPITAL MANAGEMENT

# Our market view in a nutshell – March 2025

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- **The “Trump Slump” Replaces the “Trump Bump”** The honeymoon between President Trump and financial markets is officially over. The “Trump Bump” has turned into the “Trump Slump,” erasing all post-election gains. A series of seemingly chaotic moves—ranging from the Oval Office meeting with Zelensky to the on-again, off-again tariffs—has coincided with softer consumer and investor sentiment indicators, raising fresh concerns about the U.S. economy.

- **Recession Fears: More Narrative Than Reality** Recession fears seem to owe more to political and media narratives than to hard economic data. Fed Chair Jay Powell hit the nail on the head when, halfway through the correction, he emphasized the need to "separate the signal from the noise" amid the policy uncertainty from the Trump administration. Markets initially found comfort in his remarks, but they also inferred another message: the Fed sees no urgency to prop up equity markets. As a result, the selloff has continued, pushing the S&P 500 into correction territory.

- **Looking Through the Data** Economic indicators paint a mixed picture. The U.S. added 151,000 jobs in February, with unemployment steady at 4.1%—below expectations but still indicative of a solid labor market. Inflation rose 0.2% in February, slowing from January’s 0.5% pace. Meanwhile, consumer spending in January saw its largest drop in nearly four years, though largely as a correction after a strong holiday season. The Atlanta Fed’s GDPNow forecast dipped into contraction, but this was mostly due to businesses front-loading imports ahead of potential tariffs rather than an actual economic slowdown.

- **Valuations Finally Improve** The market correction has brought a silver lining: falling stock prices, declining long-term interest rates, and accelerating corporate earnings have significantly improved equity valuations—once the bull market’s greatest Achilles’ heel. The old adage “buy the rumor, sell the news” seems to have been turned on its head, as investors have reacted more to headlines than to economic fundamentals.

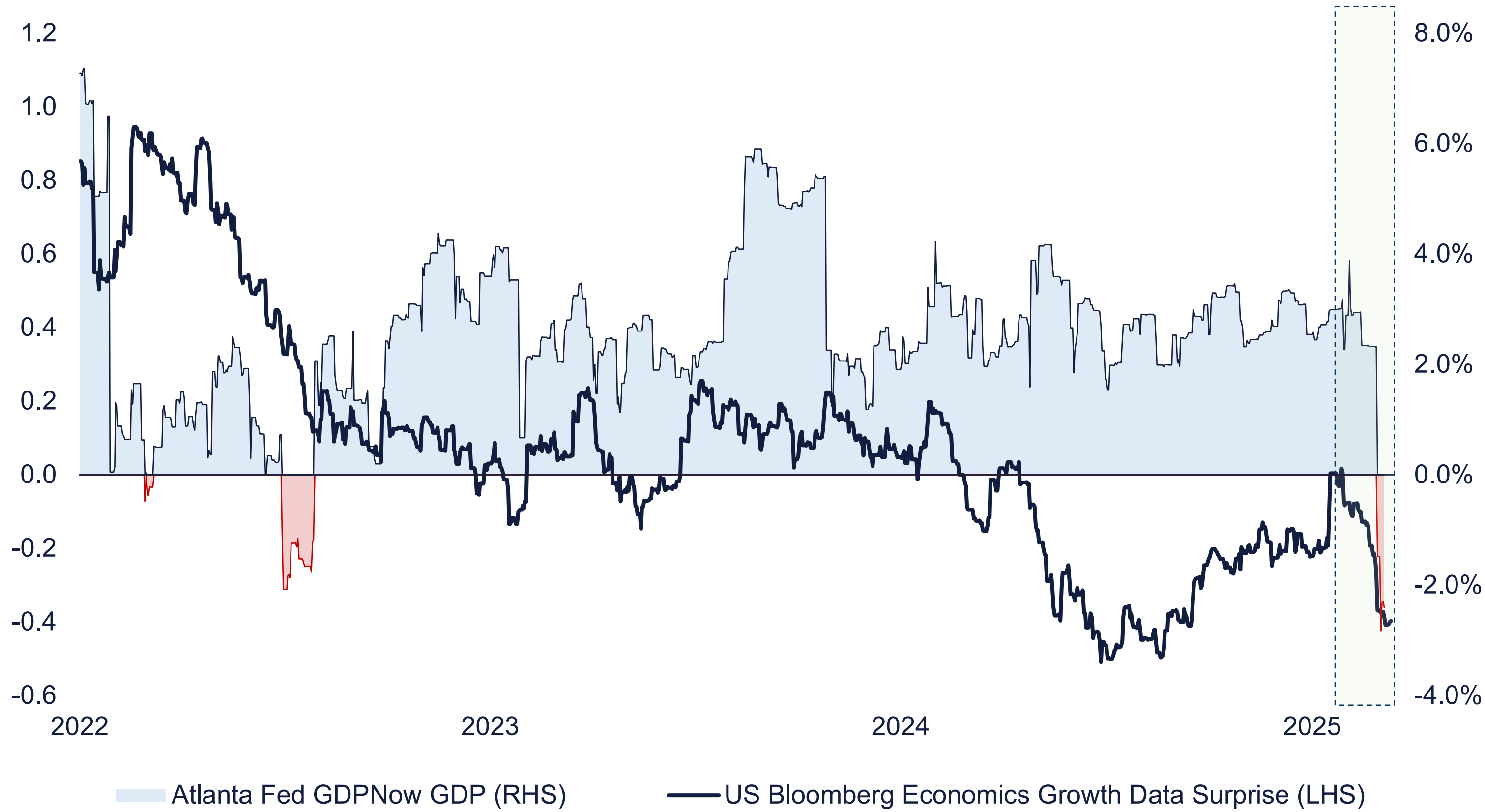
- **The Political Playbook: Punishment Before Reward?** Ultimately, beyond the noise, corporate earnings will determine the stock market’s fate. President Trump, for his part, appears to be front-loading the most punitive parts of his agenda to create budgetary space for the “sweeter” part—tax cuts—which could ultimately act as a market catalyst.

# Boreal Investment Policy

| Asset Class | | View | Rationale |
|---|---|---|---|
| **Fixed Income** | US Investment Grade | + | Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. We favor short to medium maturities |
| | US Credit | + | Interest rate cuts, controlled inflation, and resilient consumption have reduced the likelihood of a recession. While credit spreads have narrowed, investment-grade bonds remain attractive, as the default rate is expected to stay low |
| | EU Investment Grade | + | The economy is showing greater signs of weakness, and inflation has fallen faster within the target range, providing the ECB with ample room for cutting rates. We prefer government bonds and high-quality corporates |
| | European Credit | = | Prospects for European credit have improved since it is expected that the ECB will follow the Fed in lowering rates. However, the European economy remains more vulnerable to a downturn |
| | Emerging Markets | = | The prospect of a weaker dollar spurred by the Fed's interest rate cuts has marginally enhanced the appeal of emerging market debt |
| **Equities** | US | + | Valuations have kept worsening since stock prices have been rising faster than earnings. With interest rates expected to remain higher for longer, we renew our preference for stocks that can reliably grow their earnings. |
| | Europe | = | The European economy is showing an unexpected resilience despite the slump in manufacturing. With the core economies barely growing and the risk that tariffs pose to the important export sector, we see less upside |
| | Asia | = | We recommend investing selectively in the region. Despite low valuations, China remains an area of concern |
| | Emerging Markets | – | Emerging market stocks tend to be more cyclical, and there are fewer high-quality stocks. The risk of tariffs and a stronger US dollar diminish their appeal in the short term |
| | Sectors & Themes | + | To complement our core allocation, we favor Healthcare and companies that pay sustainable dividends |
| **Alternative Investments** | Multi-Strategy Hedge Funds | – | Multi-strategy / multi-manager hedge funds with daily liquidity are having a disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds |
| | Commodities | = | Commodity prices have been driven up by (and not caused by) inflation, as well as the war in Ukraine. We do not expect these levels to be sustainable in the long term |
| | Private Equity | = | Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree |

\+ Overweight – Underweight = Neutral

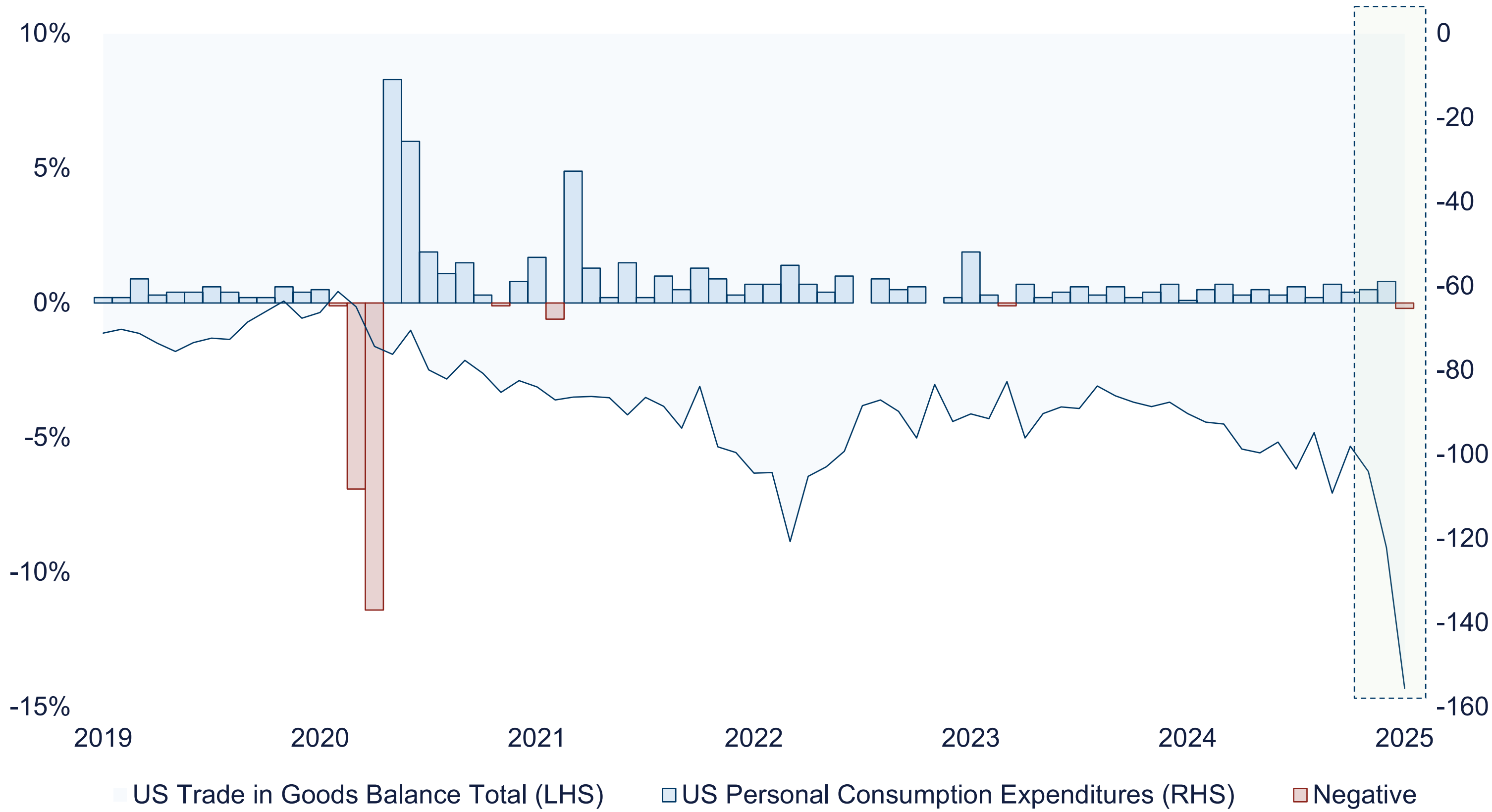
# Economic momentum eases, not stalls




- The economy has recently shown signs of slowing, with growth data surprising to the downside. Notably, the **Atlanta Fed GDPNow** forecast has dropped into contraction territory.
- Talk of a recession is on the rise; however, the labor market remains solid, and both **services and manufacturing PMIs** are still in expansion mode.

Source: Bloomberg

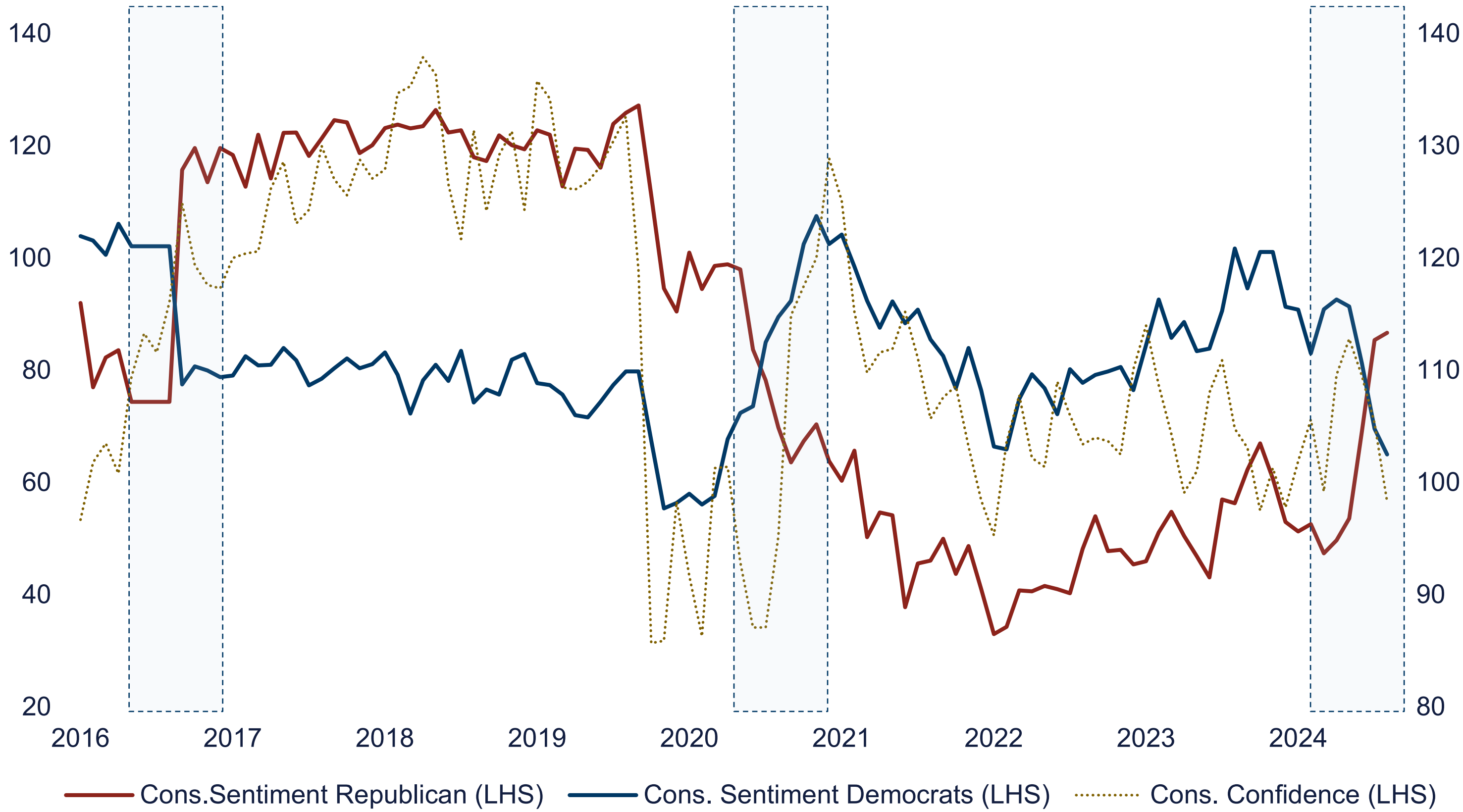
# Technical factors explain the slowdown




- Looking beyond the headlines is essential, as **technical factors** are at play in the recent soft patch. Consumer spending saw its biggest drop in four years—largely a **correction after a strong holiday season** rather than a sign of weakening demand.
- The drop in the Atlanta Fed's GDPNow was primarily driven by businesses **front-loading imports ahead of potential tariffs**, rather than by a genuine slowdown in economic activity.

Source: Bloomberg

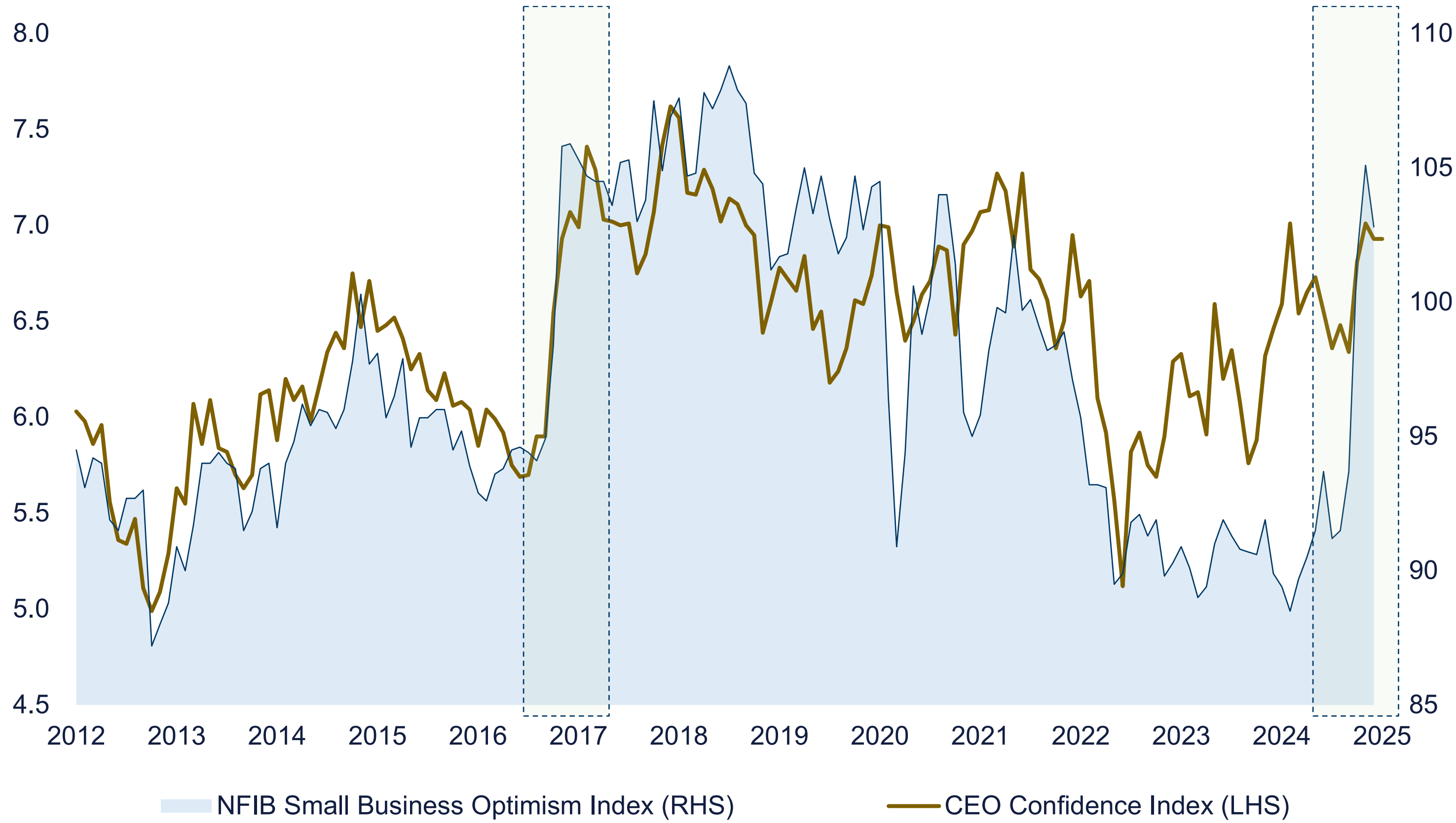
# Beware survey data




- Consumer confidence surveys have been increasingly influenced by **political bias**, making them less reliable as economic indicators.
- For three years, these surveys have predicted weaker consumption ahead, yet **spending has remained stable**, despite high inflation and rising interest rates.

Source: Bloomberg

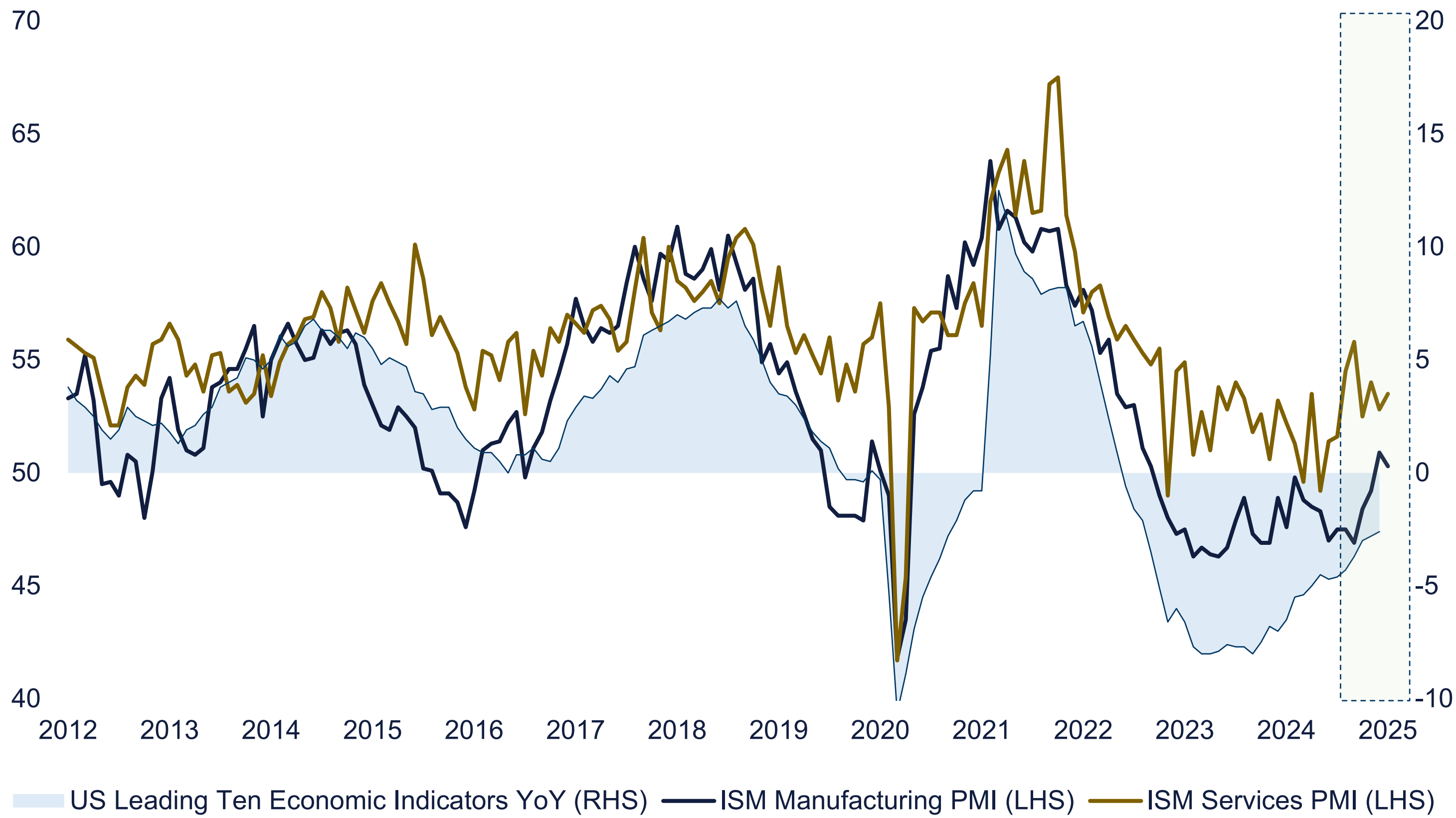
# Business optimism holds… for now




- Unlike consumer surveys, **business surveys have yet to show signs of deterioration**—but with markets in correction territory, that could change.
- Market sentiment can create **self-fulfilling prophecies**, where optimism or pessimism—justified or not—shapes economic reality through feedback loops.

Source: Bloomberg

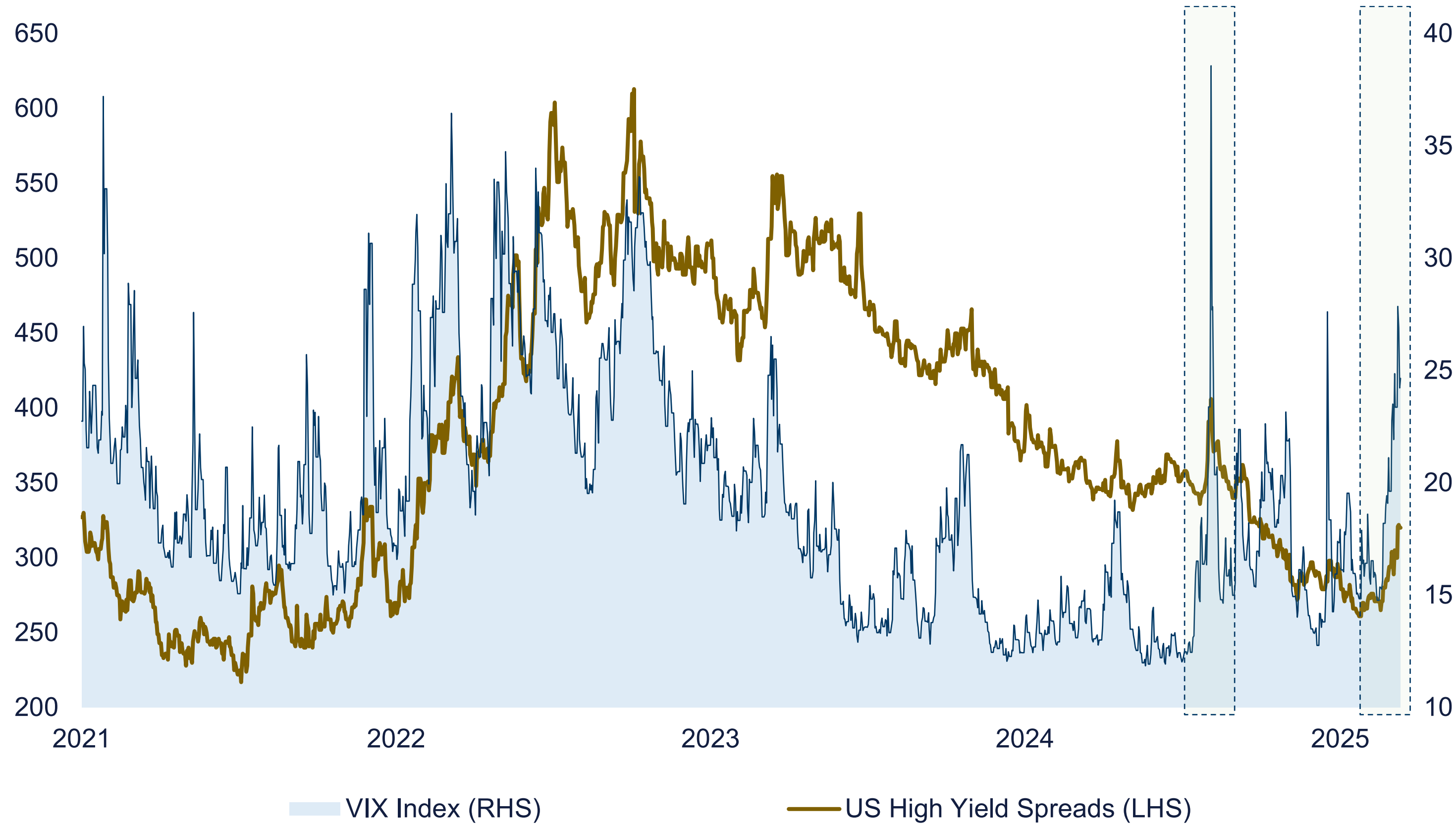
# Selective market focus on data




- Markets have fixated on **weaker-than-expected manufacturing data**, despite it having **recently reentered expansion** after more than two years of contraction.
- The **uptick in services PMI** has been largely ignored, even though it signals a return to normal activity levels.

Source: Bloomberg

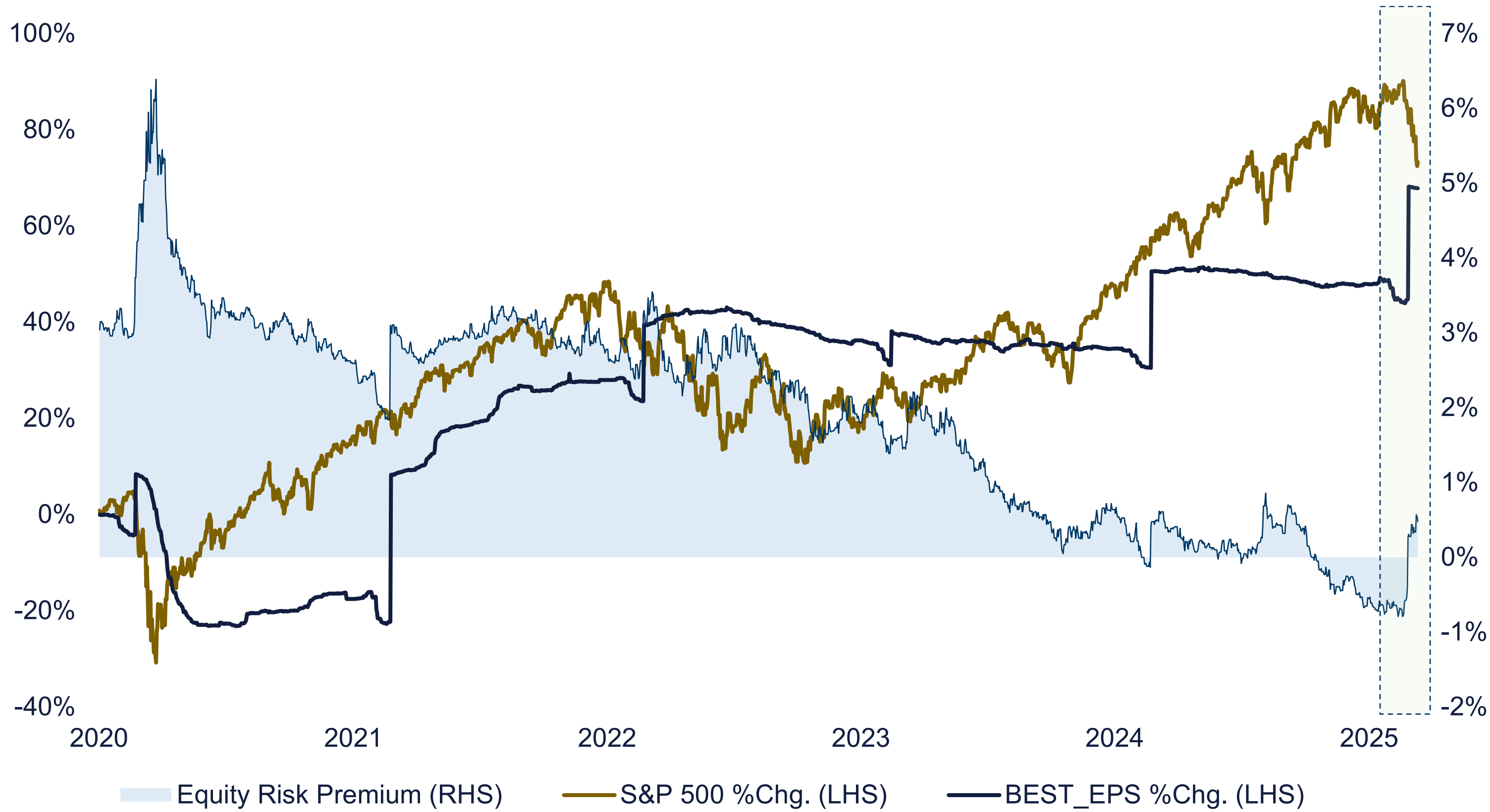
# Repricing, not panic




- Volatility remains relatively contained, suggesting that the correction is more of a **repricing of risk assets** than a reflection of deep economic concerns.
- **Credit spreads** remain tight, signaling **minimal distress** and a low probability of defaults.

Source: Bloomberg

# Not all dips are created equal




- Corrections happen for various reasons, and buying the dip requires understanding the cause—whether it's **deteriorating fundamentals**, **unexpected shocks** (like COVID), or **technical factors** (e.g., the 2010 Flash Crash).
- This time, **stretched valuations**, **record-high indices**, and **uncertainty** around the new U.S. administration's policies have set the stage for volatility. If the economy stays on its growth path, this could present a **buying opportunity** for long-term investors.

Source: Bloomberg

# Investment scenarios

| | Scenario 1<br>Monetary policy mistake | Scenario 2<br>Outgrowing the problems | Scenario 3<br>Economic policy mistake |
|---|---|---|---|
| **Drivers** | • Inflation remains persistently high, driven by a seemingly strong labor market and resilient housing prices. Tariffs and immigration restrictions further exacerbate price pressures.<br>• The Fed overestimates the economy's strength, keeping rates too high for too long or even raising them further, pushing the economy close to recession. It later reverses course with aggressive monetary easing. | • Pro-growth policies, resilient consumption, and corporate dynamism extend the economic cycle.<br>• Inflation normalizes further, prompting the Fed to ease gradually toward a neutral stance.<br>• Robust economic growth narrows the fiscal deficit, while the yield curve steepens slightly, credit spreads stay tight, and corporate earnings grow steadily. | • Tax cuts are not fully offset by new tariffs and decreased government spending, leading to a significant widening of the fiscal deficit.<br>• Tariffs imposed on key trading partners (such as Europe and China) trigger retaliatory measures, negatively impacting global economic growth.<br>• Debt sustainability concerns pressure long-term rates, steepening the yield curve. |
| **Market impact** | • Equities decline, but the “Fed Put” limits the extent of the correction as lower interest rates support valuations.<br>• Credit underperforms as spreads widen from historic lows.<br>• Sovereign debt rallies on "flight to quality" and falling rates. Commodity prices drop.<br>• The US dollar depreciates if the Fed cuts rates ahead of others or if the slowdown is U.S.-centric; otherwise, "flight to quality" supports the US dollar. | • Equities gain support from earnings growth and the “Fed Put,” even with high valuation multiples.<br>• Credit performs well as default rates stay low and spreads remain stable.<br>• High-quality and sovereign debt deliver solid returns, with potential upside if long-term rates fall.<br>• Commodity prices rise on economic strength. The USD stays strong, driven by growth and real interest rate differentials. | • Equity markets sell off on valuation and growth concerns.<br>• Credit spreads widen sharply as the prospect of corporate defaults looms.<br>• Turmoil in the Treasury market may force the Fed to intervene, putting the US dollar’s role as a reserve currency at risk.<br>• With US Treasuries in question, the 'flight to quality' will take a new form, with safe-haven currencies like the Swiss Franc and Yen, as well as gold, appreciating. |
| **Probability** | 25% (-5%) | 45% (-5%) | 30% (+10%) |

**Short-term catalyzers**

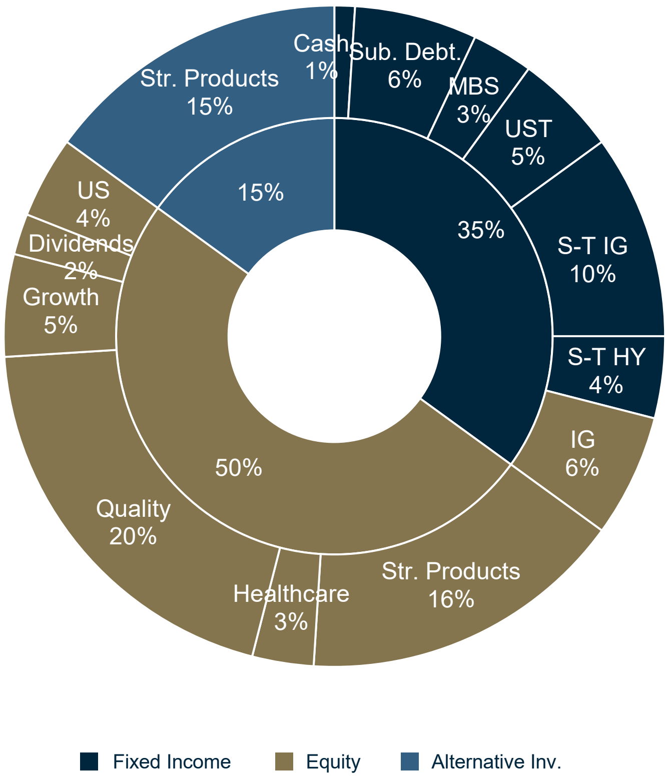
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

**Other risks**

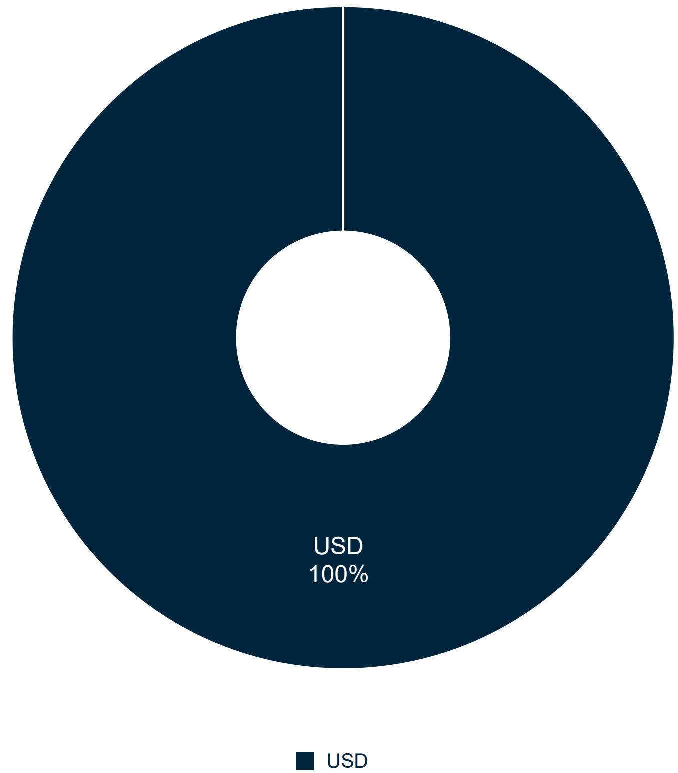
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

# Boreal Balanced Portfolio USD

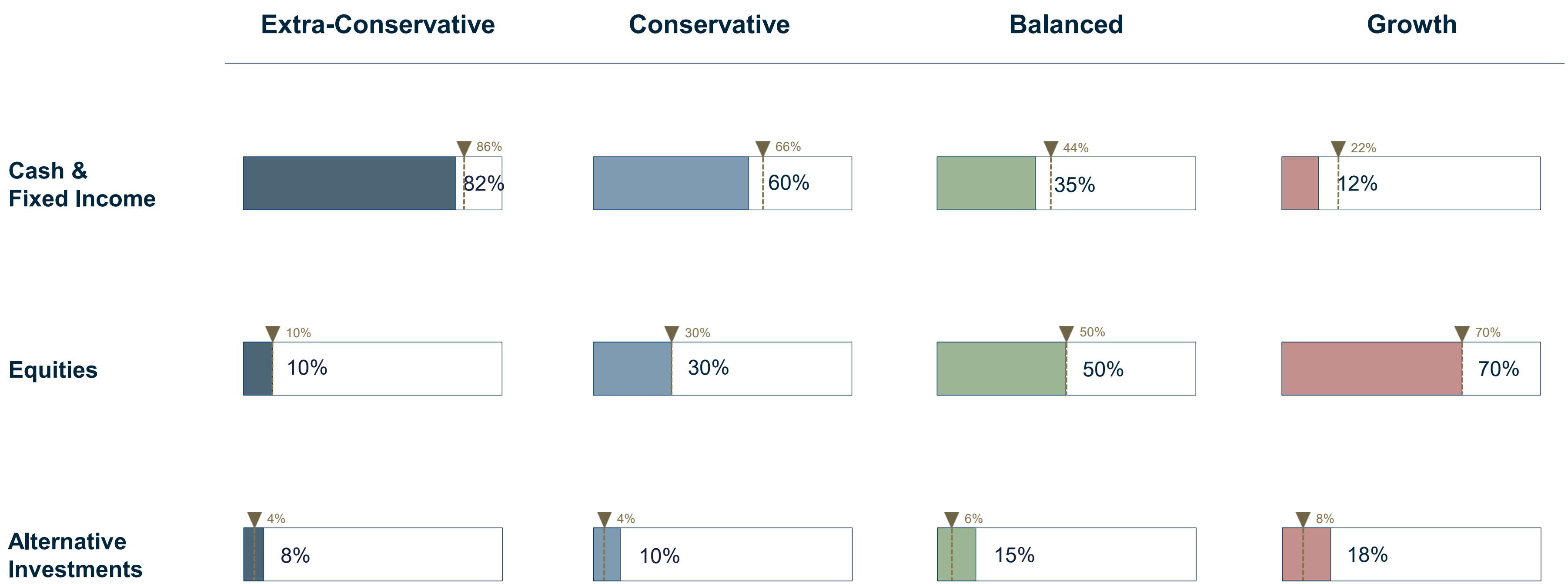
## Asset Allocation




## Currency Allocation

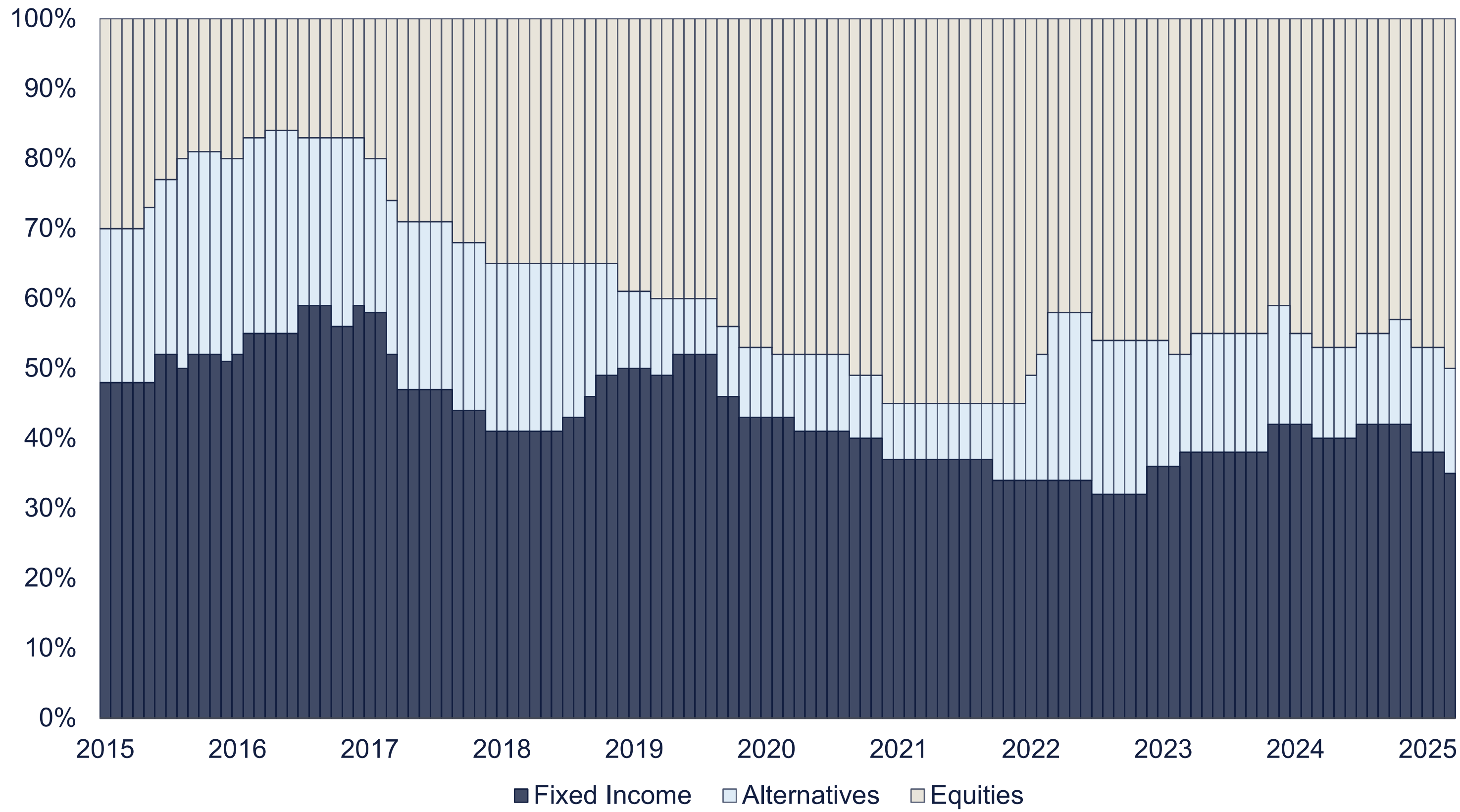


# Boreal Investment Profiles




▼ Strategic Asset Allocation

# Boreal Balanced Portfolio – Asset Allocation evolution



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