Investment Policy

May 2025

BOREAL
CAPITAL MANAGEMENT

Our market view in a nutshell – May 2025

- **Risk-On: A Remarkable Rebound** The turnaround in just over a month has been nothing short of remarkable. Following the shock of Liberation Day, the Trump administration's overtures toward trade agreements have managed to rescue major equity indices from a severe—and abrupt—correction, lifting them back into positive territory for the year. This outcome underscores one of President Trump's key strengths: his ability to pivot and adjust course.

- **More Noise than Signal:** Volatility has declined sharply, and credit spreads have narrowed significantly—leaving little doubt about the underlying strength of the economy. This development underscores how recession fears, which gained traction earlier in the year, were ultimately not corroborated by credit markets—historically the most reliable indicator of downturn risk. It also reinforces the critical need to separate noise from signal, particularly in today's highly politicized environment.

- **Supportive Financial Conditions—Despite the Fed** The decline in volatility and tightening of corporate spreads have eased pressure on the Federal Reserve to cut interest rates. Inflation data has come in below expectations for three consecutive months, with core inflation now nearing target levels. In this context, the Fed could have opted to prioritize growth amid rising uncertainty—particularly since the recently announced 90-day tariff moratorium effectively postpones potential inflationary effects. However, the very public feud between President Trump and the Fed has been counterproductive, likely reaffirming the Fed's commitment to both price stability and its institutional independence.

- **Positive Macro Surprises:** Contrary to consensus expectations, recent economic data has surprised to the upside. Survey indicators such as PMIs and confidence indices have found a floor—or even shown signs of improvement. Although Q1 GDP contracted, this was largely technical: the decline was driven by a surge in imports ahead of tariff implementation. Importantly, this occurred against a backdrop of strong consumption. We expect a reversal in the coming quarters.

- **Earnings: Solid Backdrop, Weaker Visibility** The Q1 earnings season is revealing robust profit growth—up 13% year-over-year—suggesting that corporate fundamentals remained strong before the latest tariff announcements. However, earnings forecasts have since been revised downward due to increased uncertainty. Coupled with the rebound in equity prices and rising interest rates, this has compressed the equity risk premium to levels even tighter than those before Liberation Day. In this environment, however, valuations may be a misleading guide for short-term positioning. Instead, economic resilience and newsflow are likely to be the primary drivers of market performance.

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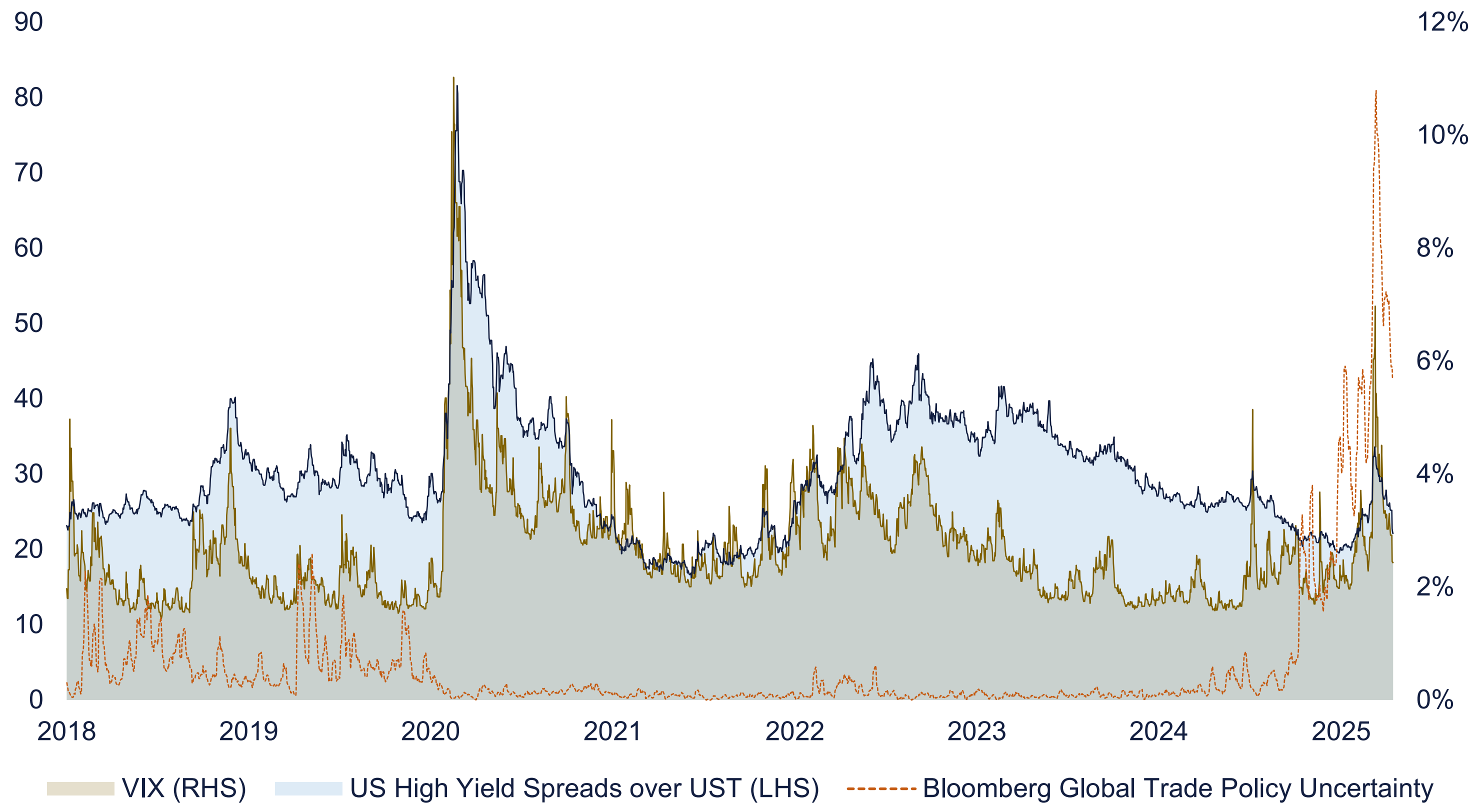
Asset Class		View	Rationale
Fixed Income	US Investment Grade	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. We favor short to medium maturities
	US Credit	+	Interest rate cuts, controlled inflation, and resilient consumption have reduced the likelihood 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

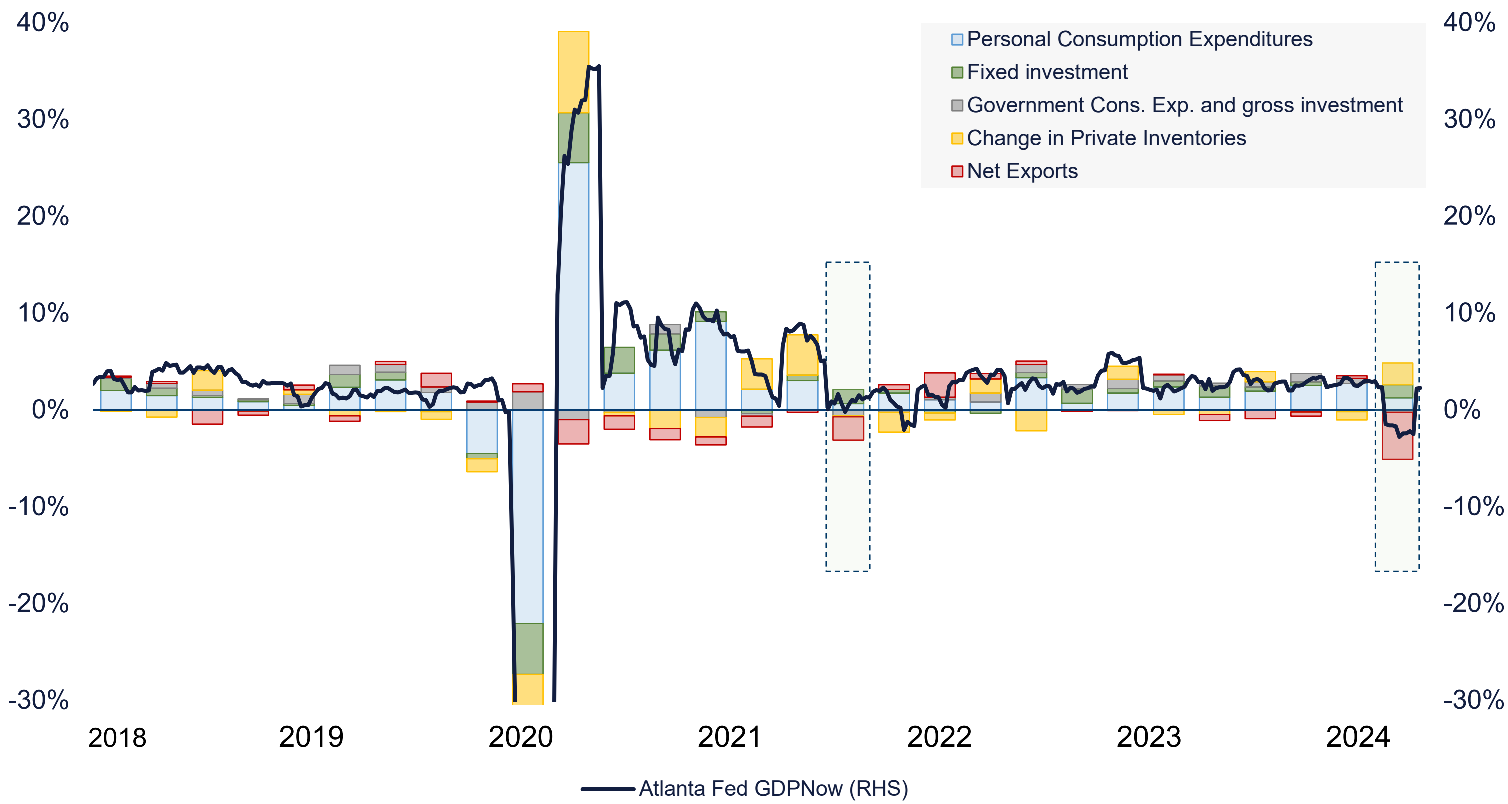
Risk-On



- Risk assets staged a **swift rebound** following Liberation Day, recovering from a sharp correction and moving back into positive territory for the year.
- Sharp **declines in volatility and tighter credit spreads** highlight economic strength and discredit early recession fears, reinforcing the need to distinguish signal from political noise.

Source: Bloomberg

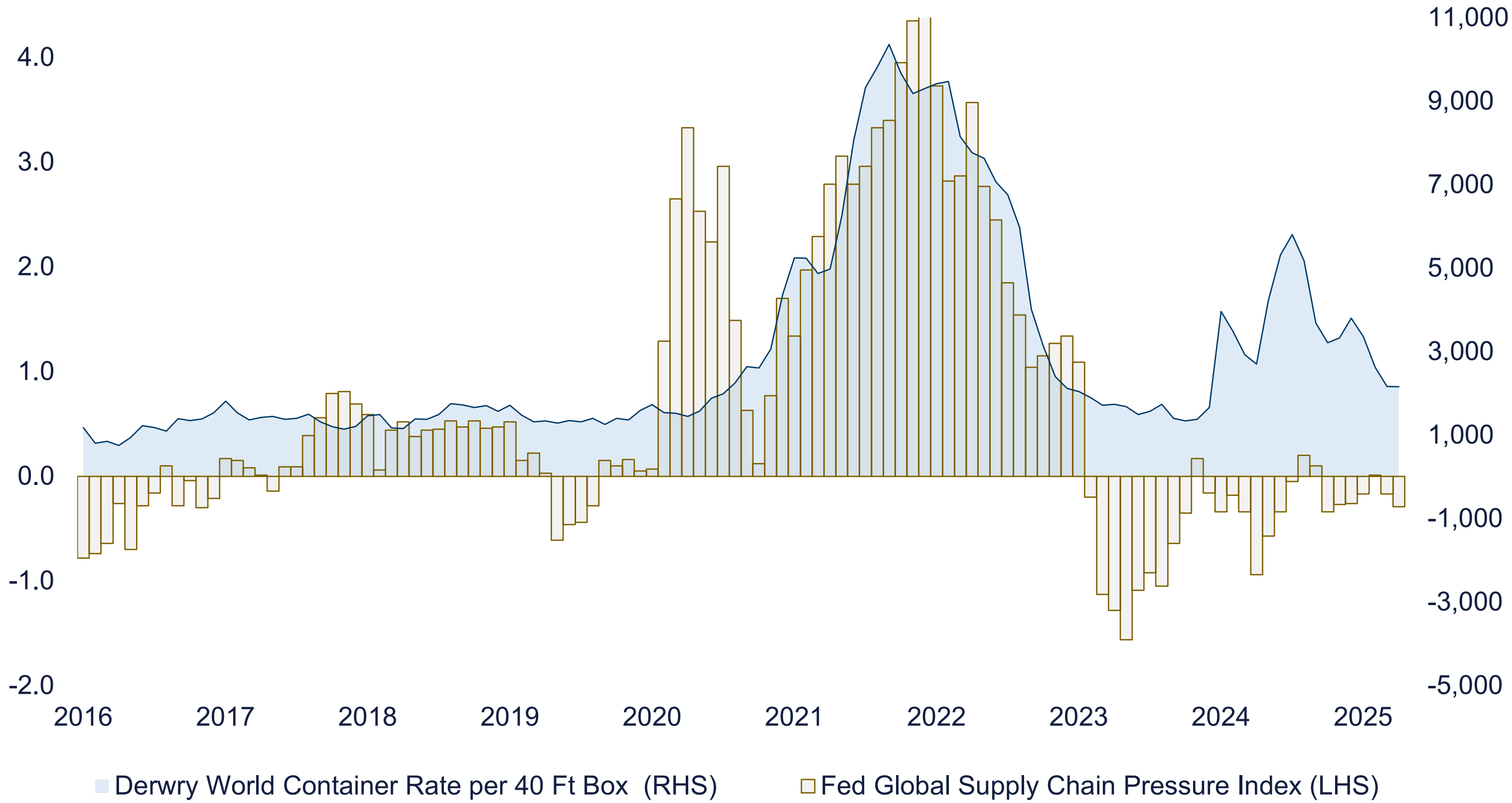
Technical contraction, not a downturn



- Recent **economic data has exceeded expectations**, with PMIs and confidence indices stabilizing or improving, suggesting that the economy is more resilient than previously thought.
- The **Q1 GDP contraction was mainly technical**, caused by a spike in imports ahead of tariffs, which subtracted from growth. Strong consumer spending remains intact, supporting our view of a likely rebound in the next quarters.

Source: Bloomberg

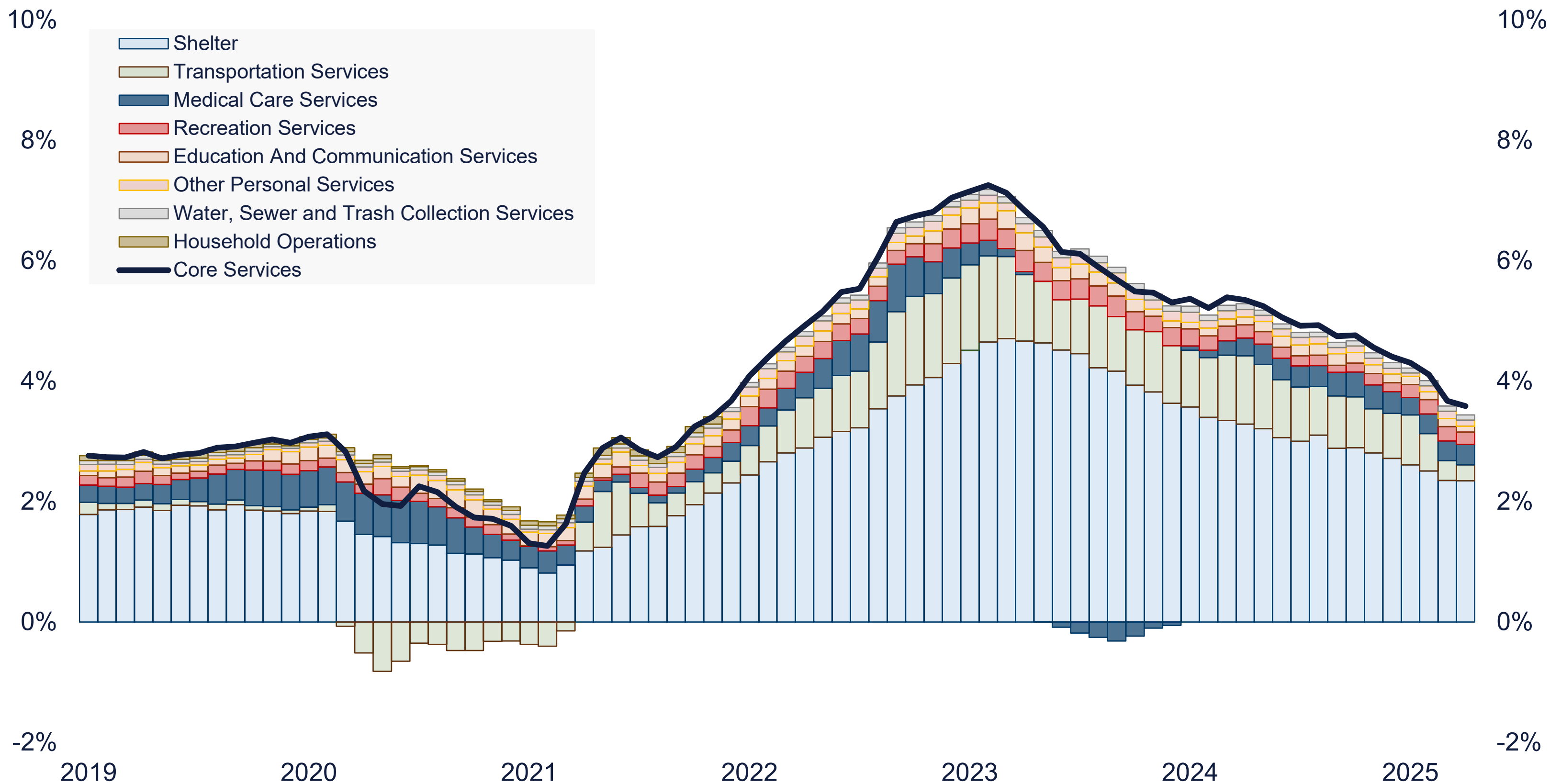
No sign of cracks



- With punitive tariffs on hold, the **immediate risk of supply chain disruptions has eased**. However, it is uncertain whether this pause will be long enough to facilitate lasting trade agreements.
- Given the complexity of global trade, ongoing **uncertainty may still reveal unexpected structural weaknesses**. Distinguishing anecdotal noise (such as temporary product shortages) from meaningful signals will remain essential.

Source: Bloomberg

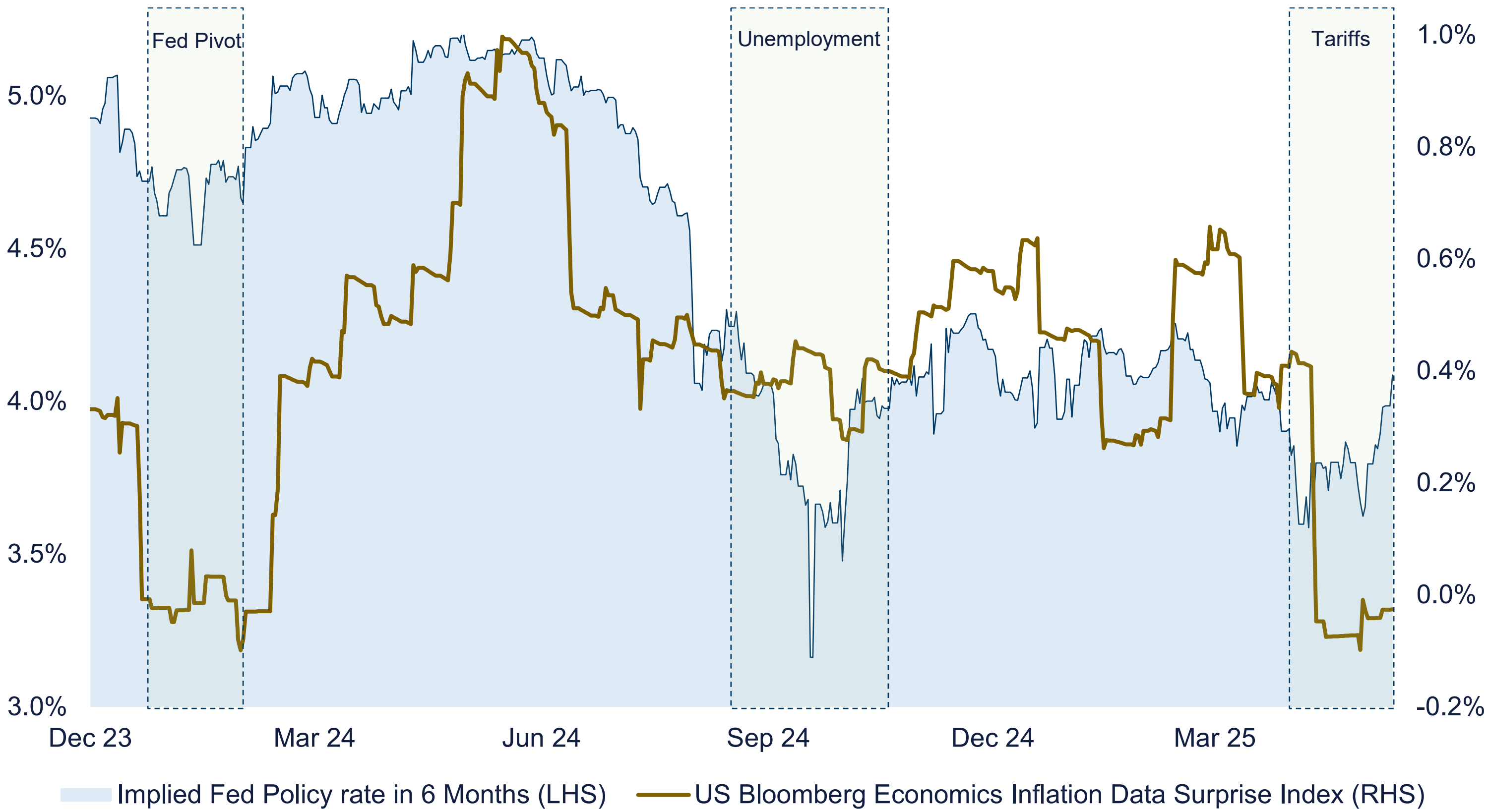
Landed



- **Inflation data has come in below expectations for three consecutive months**, with core inflation now approaching target levels. Headline CPI declined to 2.3% year-on-year, while Core CPI stood at 2.8%. The Core PCE Price Index—the Fed's preferred inflation gauge—fell to 2.6%.
- **Services inflation continues to ease**, and shelter costs are finally returning to pre-pandemic levels. In realistic terms—taking into account past deviations from the 2% target—one could say that inflation has finally landed.

Source: Bloomberg

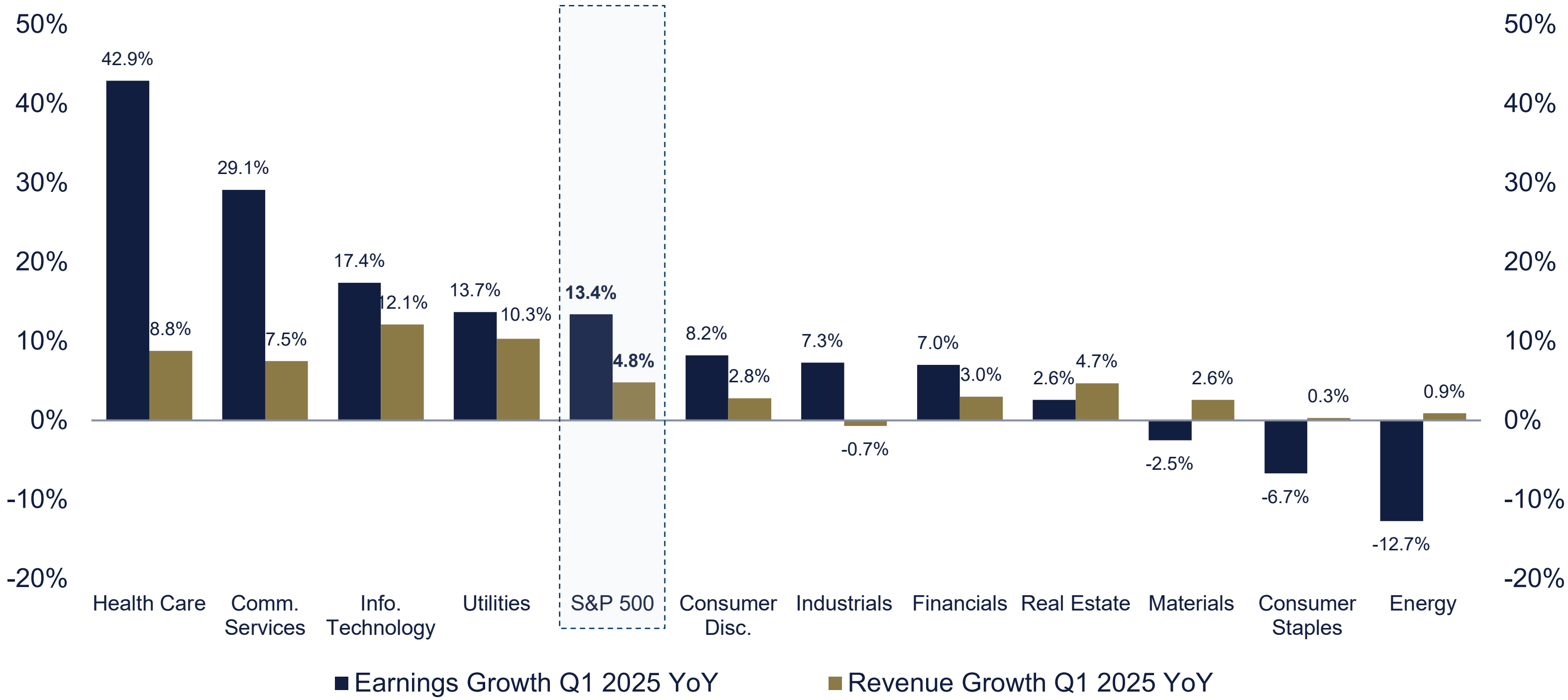
The Fed digs in its heels



- Declining market volatility and tighter credit spreads have **eased the immediate pressure on the Fed to cut rates**. However, inflation continues to surprise to the downside, creating room to gradually move rates closer to a neutral stance.
- Despite elevated uncertainty and a **tariff moratorium that delays potential inflationary pressure**, the Fed's public clash with the administration has likely reinforced its focus on price stability.

Source: Bloomberg

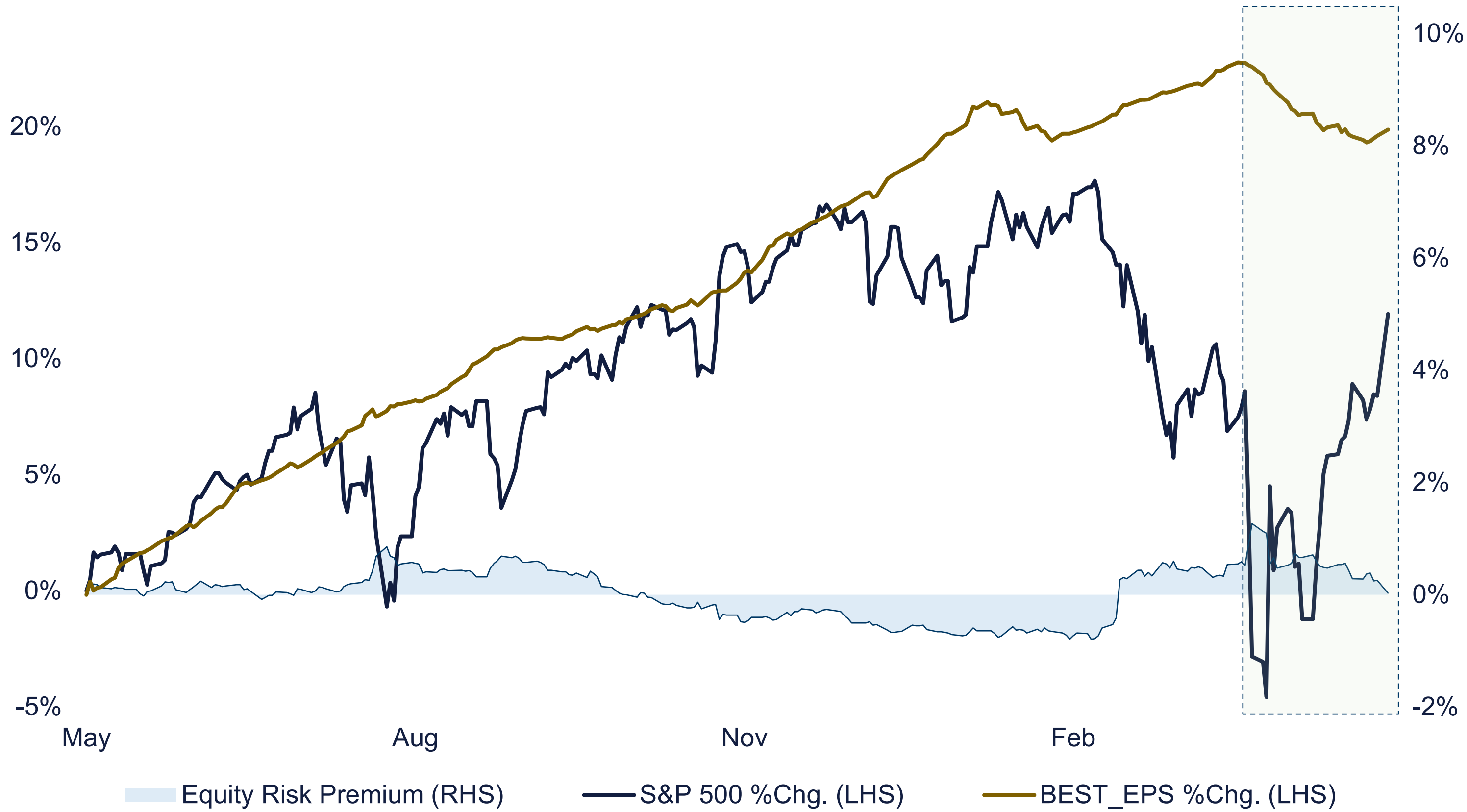
Growth holds, guidance fades



- **Q1 earnings grew 13.4% year-over-year**, with 78% of S&P 500 companies beating EPS estimates and 62% beating on revenues—marking the **second consecutive quarter of double-digit earnings growth**.
- Despite the strong results, forward visibility is weakening: earnings estimates were revised up during Q1, but **guidance for Q2 is mixed**.

Source: Bloomberg

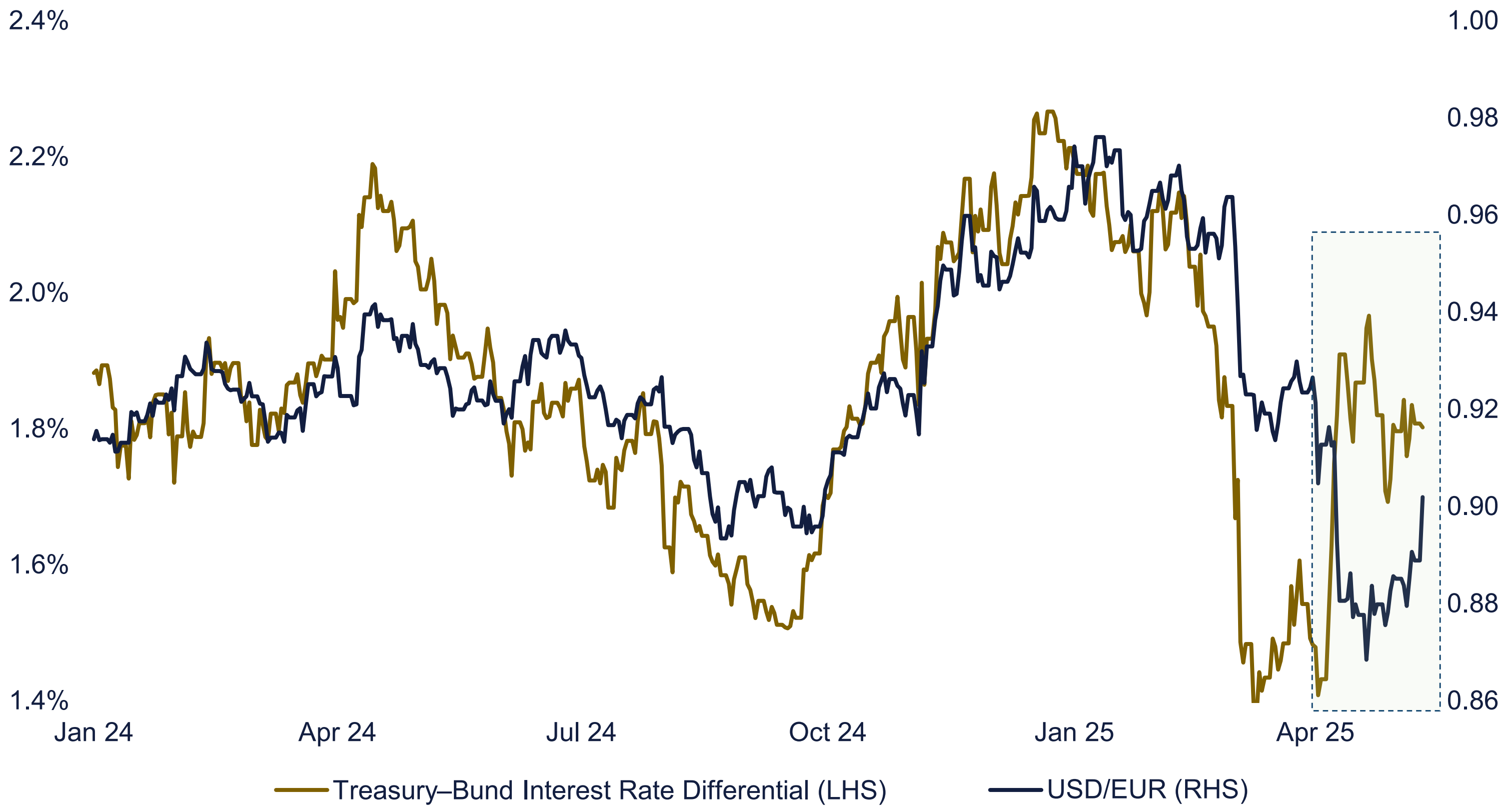
Valuations do not matter (for now)



- Earnings forecasts have been revised downward amid rising uncertainty, while equity prices and interest rates have climbed—**pushing the equity risk premium to pre-Liberation Day lows**.
- In this environment, **valuations may offer limited guidance** for short-term positioning; market performance is more likely to be driven by economic resilience and newsflow.

Source: Bloomberg

The dollar is dead, long live the dollar!



- Despite concerns that U.S. policy shifts might end American exceptionalism and trigger capital outflows, **fundamentals—such as rate differentials, trade balances, and growth—remain supportive of the dollar**.
- While **some markets may offer cheaper valuations**, none match the U.S. in terms of market depth, investor protection, and corporate quality across both equities and fixed income.

Source: Bloomberg

Investment scenarios

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	Scenario 1 Monetary policy mistake	Scenario 2 Outgrowing the problems	Scenario 3 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. • 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. • Inflation normalizes further, prompting the Fed to ease gradually toward a neutral stance. • 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. • Tariffs imposed on key trading partners (such as Europe and China) trigger retaliatory measures, negatively impacting global economic growth. • 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. • Credit underperforms as spreads widen from historic lows. • Sovereign debt rallies on "flight to quality" and falling rates. Commodity prices drop. • 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. • Credit performs well as default rates stay low and spreads remain stable. • High-quality and sovereign debt deliver solid returns, with potential upside if long-term rates fall. • 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. • Credit spreads widen sharply as the prospect of corporate defaults looms. • Turmoil in the Treasury market may force the Fed to intervene, putting the US dollar’s role as a reserve currency at risk. • 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%	40% (+5%)	35% (-5%)

Short-term catalyzers

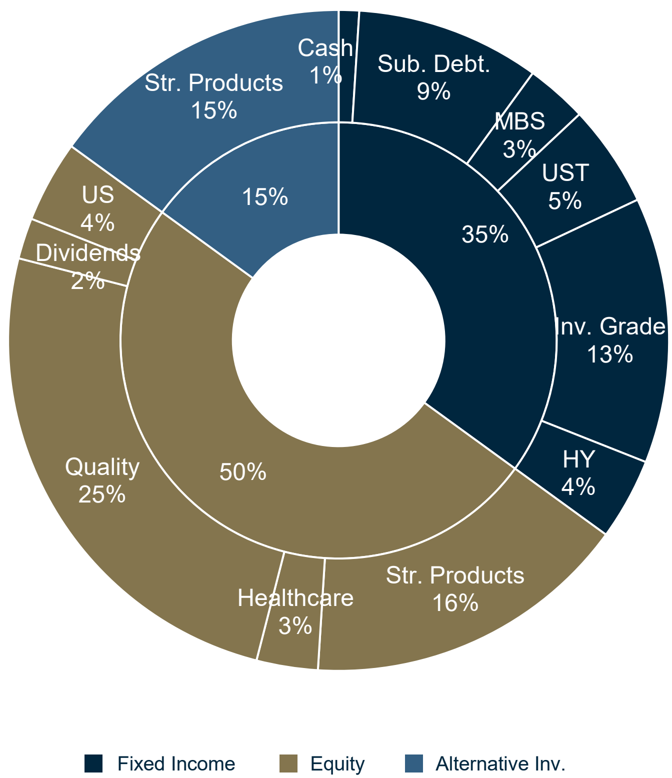
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

Other risks

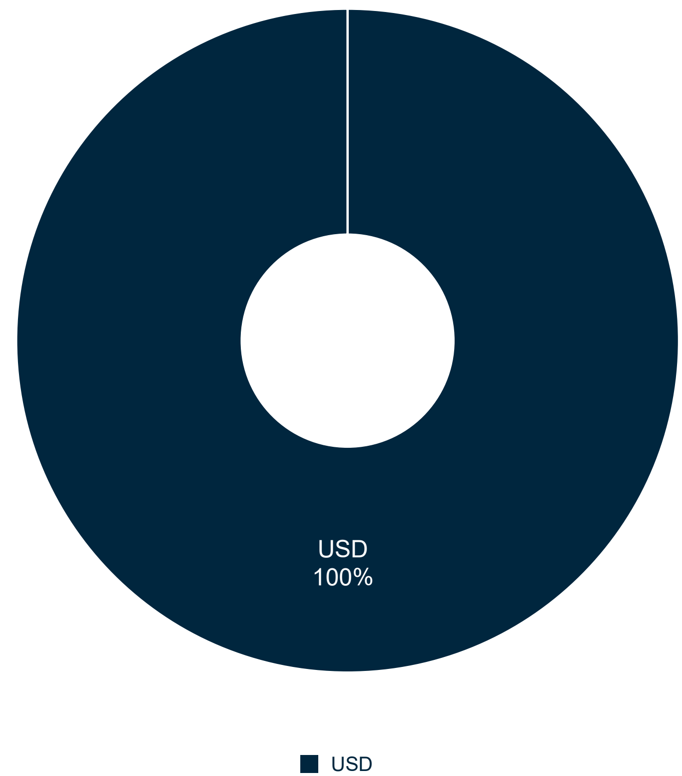
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

Boreal Balanced Portfolio USD

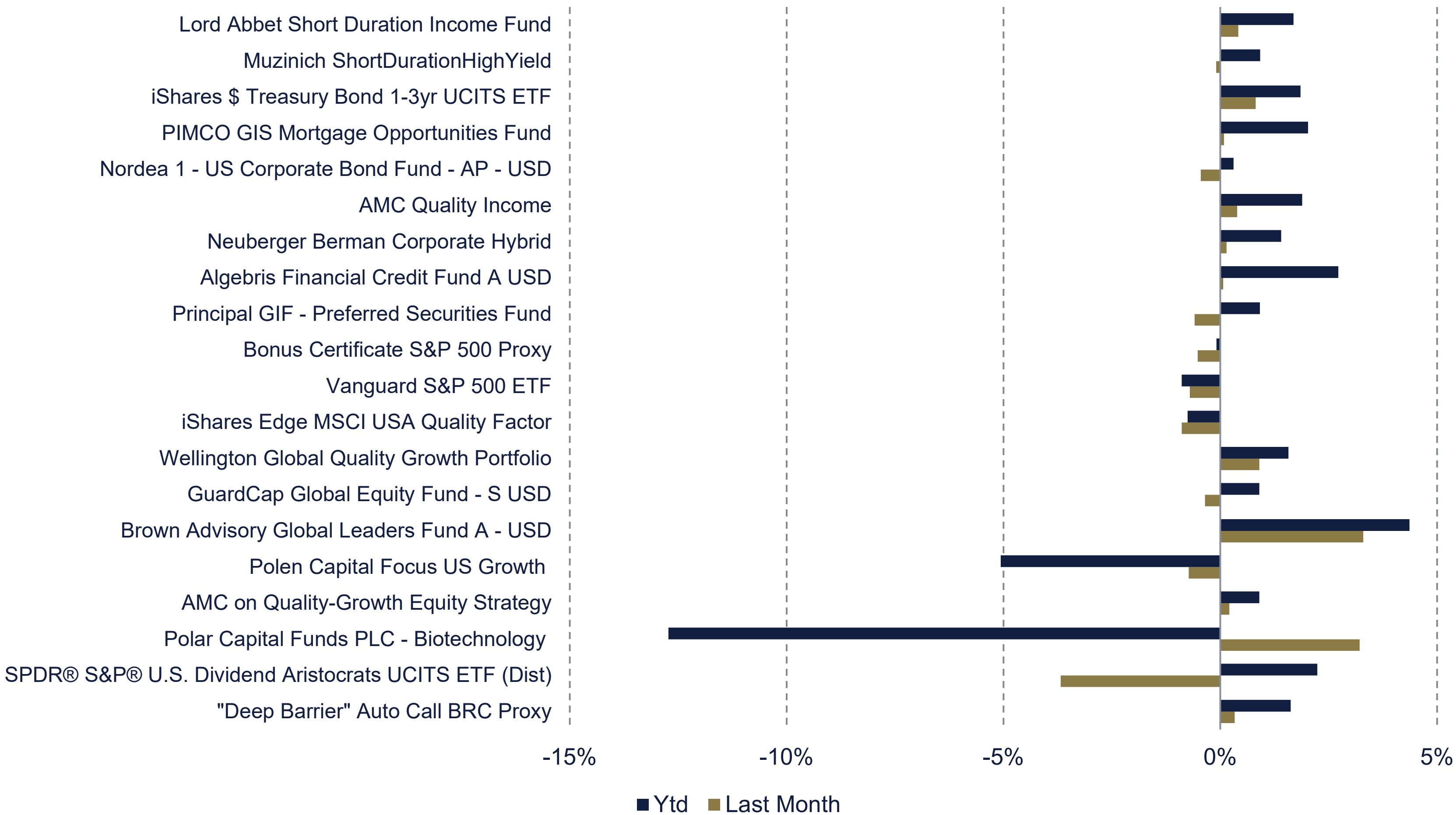
Asset Allocation



Currency Allocation

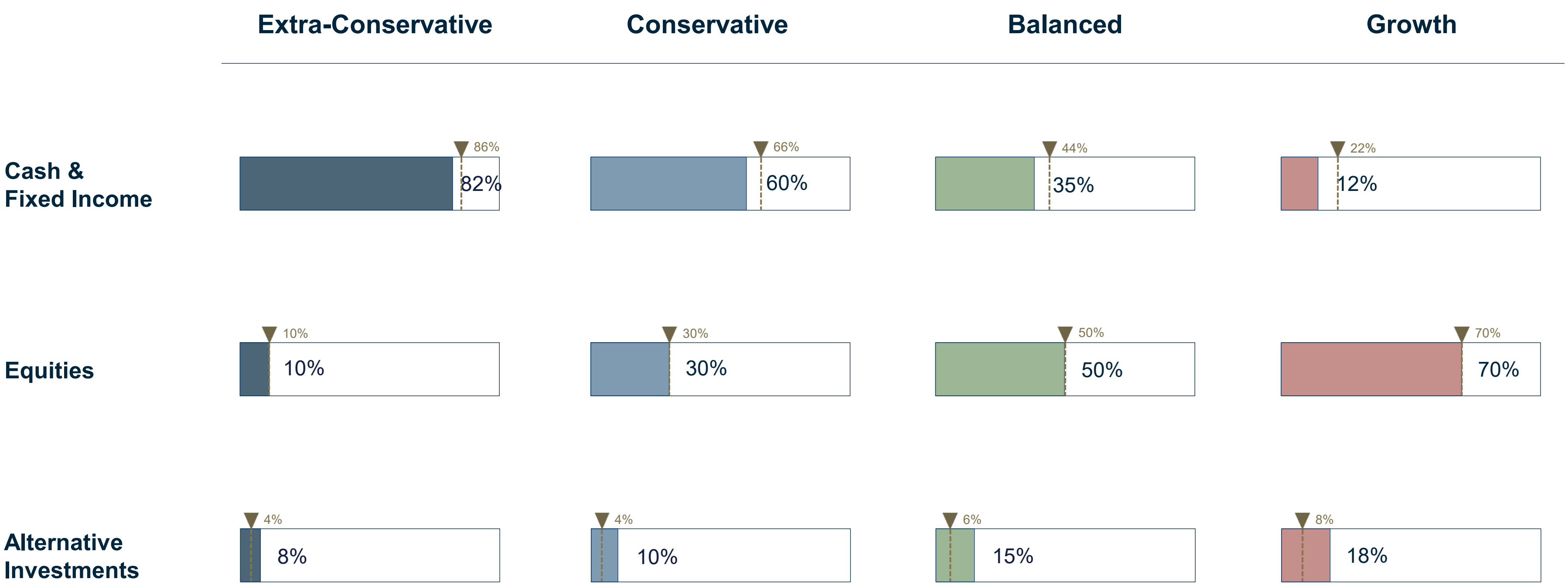


Model portfolio evolution



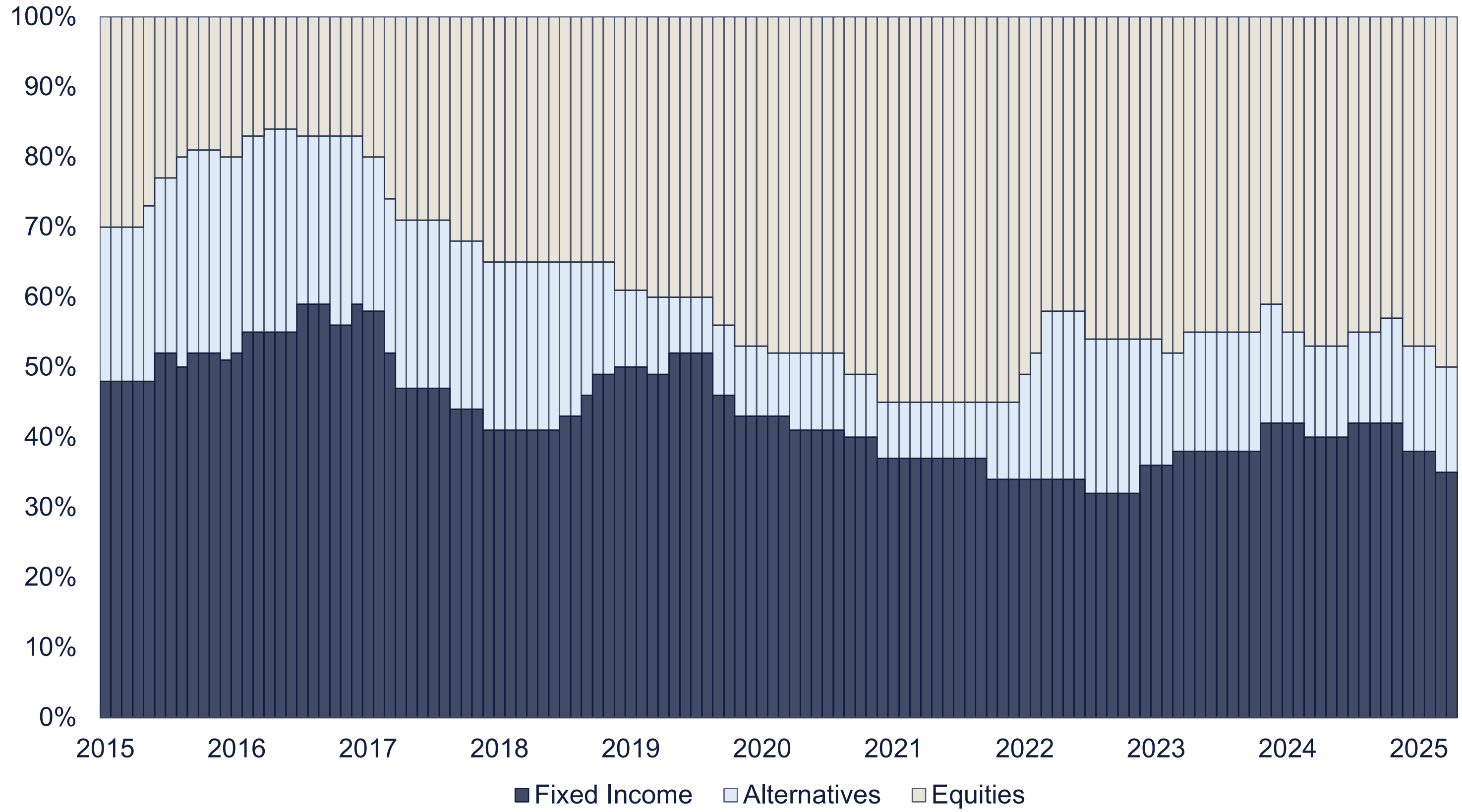
Source: Bloomberg, as of May 12, 2025
* Fund publishes monthly NAV with a 1 month of delay

Boreal Investment Profiles

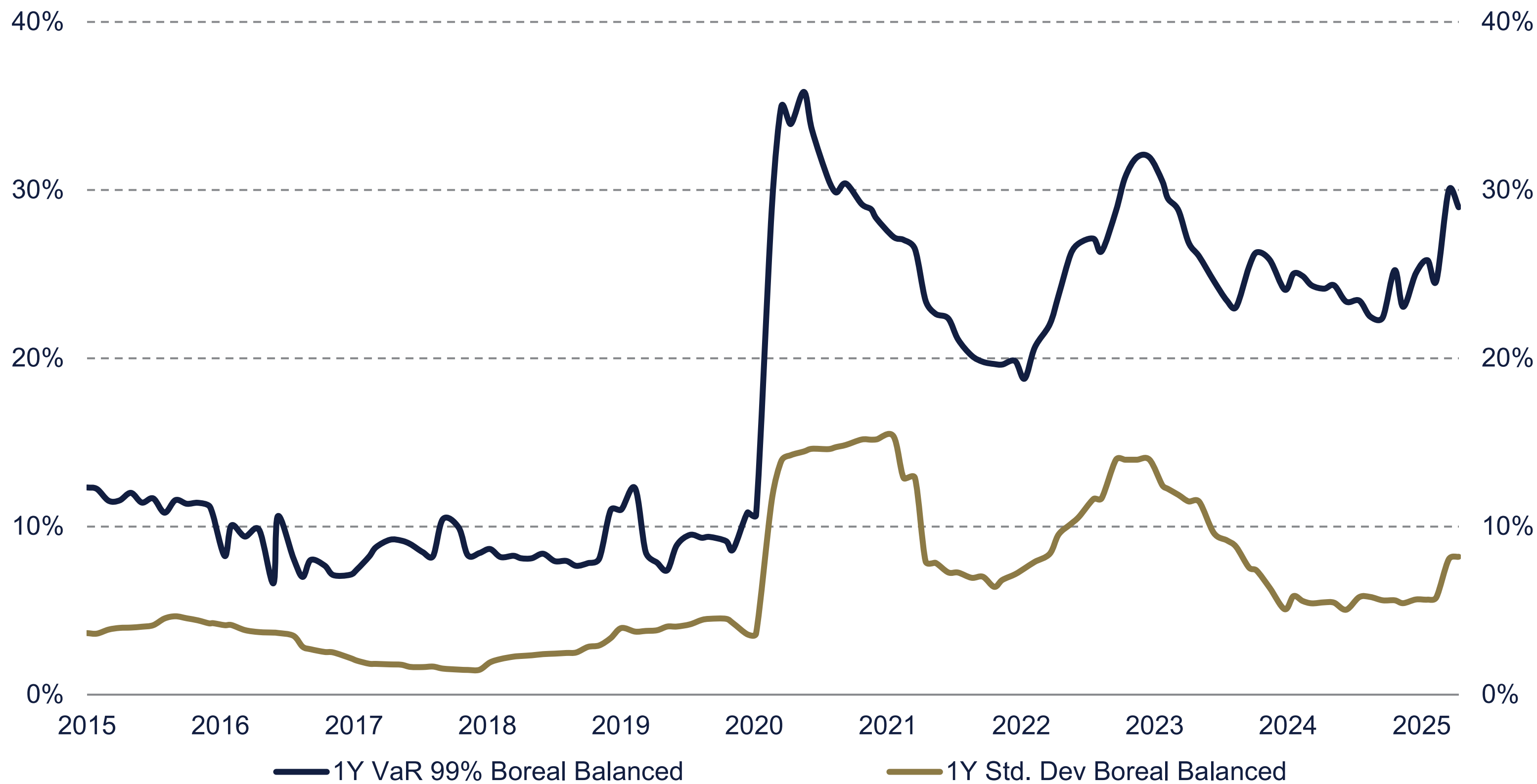


▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution

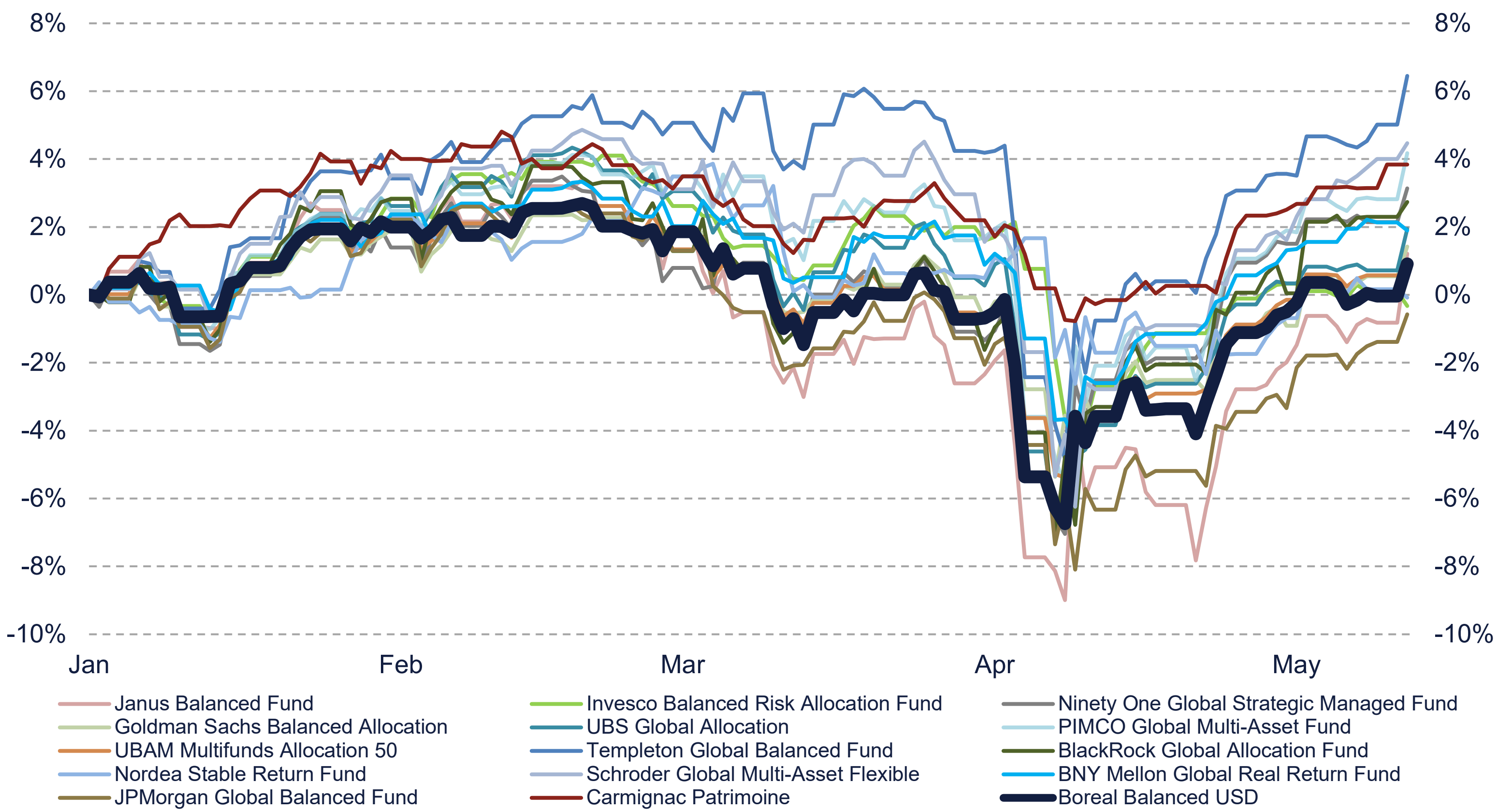


Boreal Balanced Portfolio – VaR evolution



Data as of May 12, 2025. Source: Bloomberg and Boreal Capital Management. Model portfolio performance calculated based on the net return of the individual funds that comprise it, as well as suitable proxies for structured notes. Performance is not audited, does not include management fees, does not represent actual trading and may not reflect actual performance in individual accounts. Composition and calculation details available on request.

Boreal Balanced Portfolio – Peer comparison (1)



- **Total Return** (YTD): **11th**
- **Standard Deviation** (YTD): **7th**
- **Downside Risk** (YTD): **6th**
- **Sharpe Ratio** (YTD): **n/a**
- **Sortino Ratio** (YTD): **n/a**

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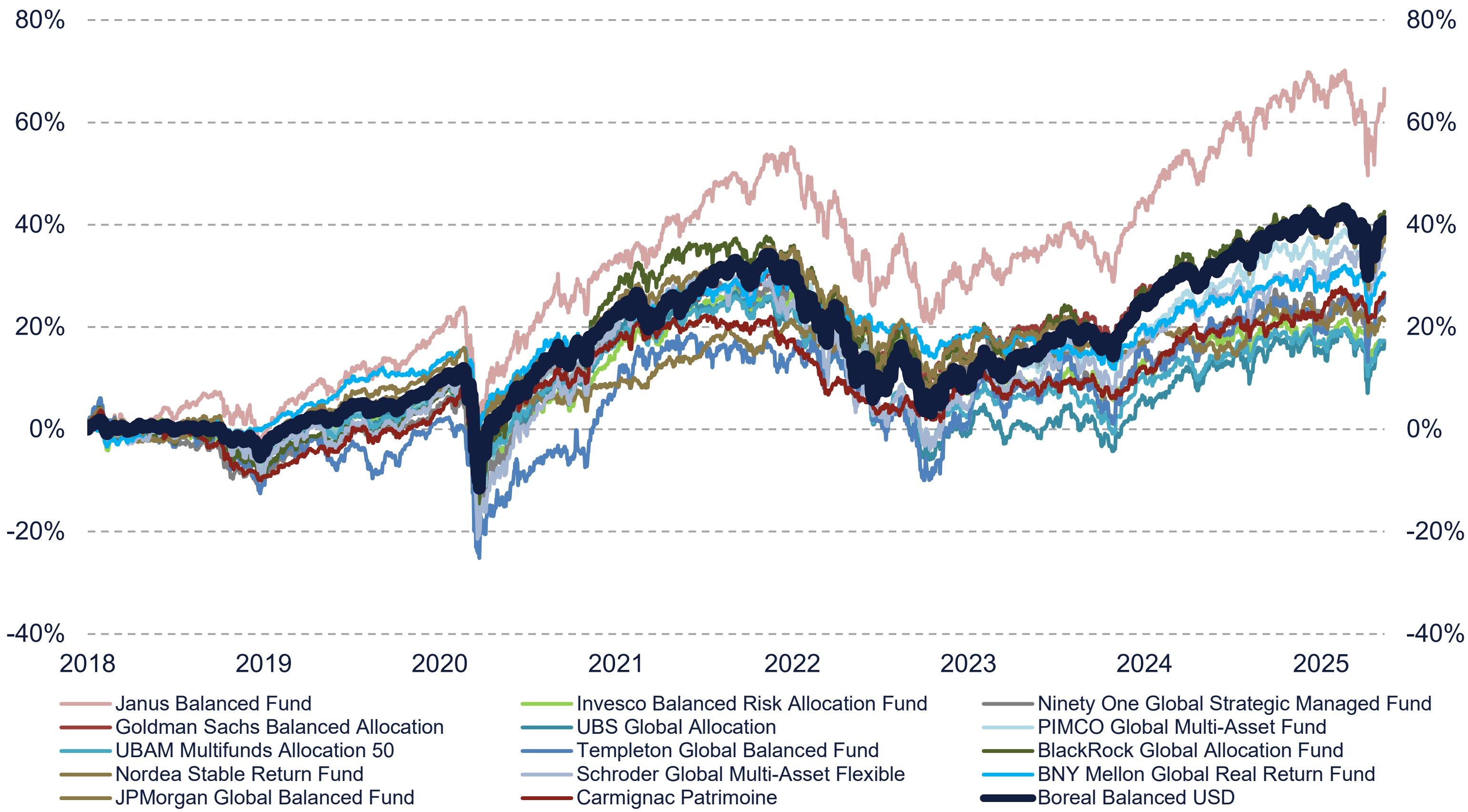
Boreal Balanced Portfolio – Peer comparison (2)



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Boreal Balanced Portfolio – Ytd performance

- **Total Return** (YTD): **1.14%**
- **Standard Deviation** (YTD): **11.58%**
- **Downside Risk** (YTD): **8.46%**
- **Sharpe Ratio** (YTD): **-0.04**
- **Sortino Ratio** (YTD): **-0.12**

Data as of May 12, 2025. Source: Bloomberg and Boreal Capital Management. Model portfolio performance calculated based on the net return of the individual funds that comprise it, as well as suitable proxies for structured notes. Performance is not audited, does not include management fees, does not represent actual trading and may not reflect actual performance in individual accounts. Composition and calculation details available on request.

Boreal Balanced Portfolio – Historical performance (1)

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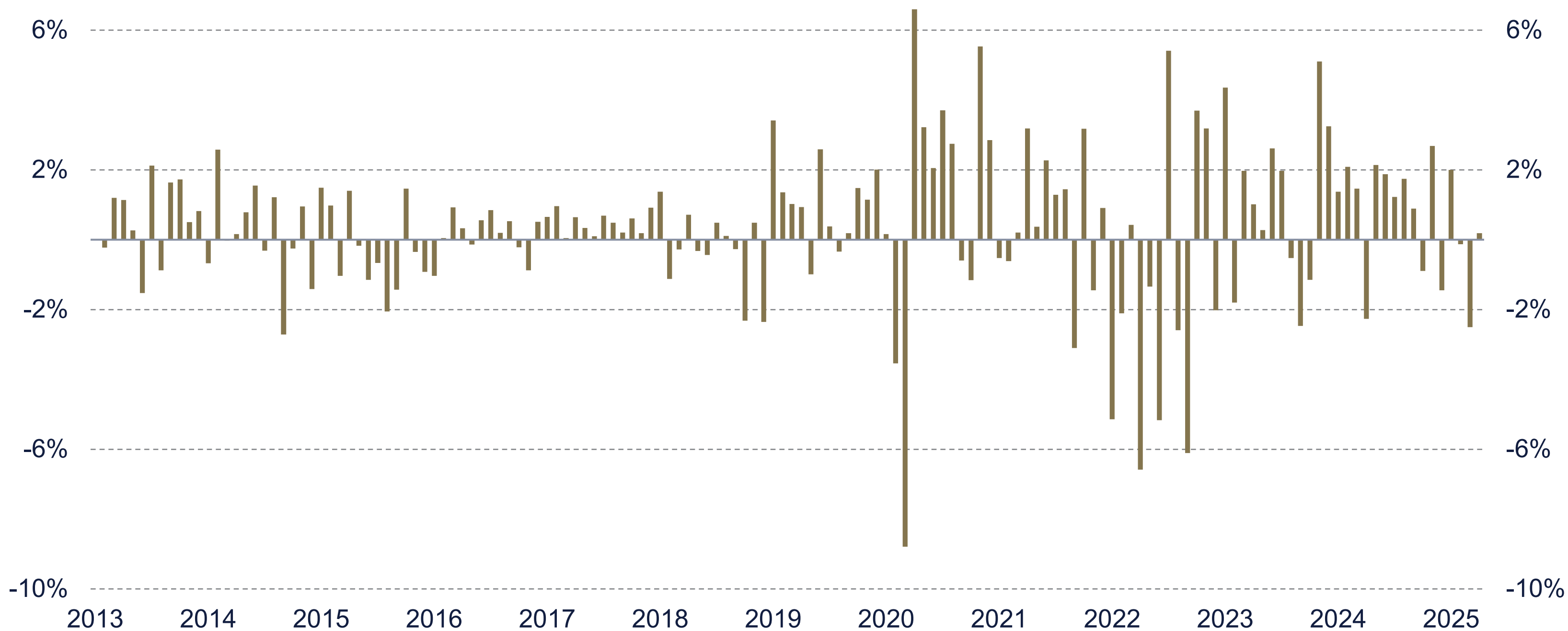

- **Total Return** (1 year): **7.53%**
- **Total Return** (3 year): **29.13%**
- **Total Return** (Since Jan 13): **65.10%**

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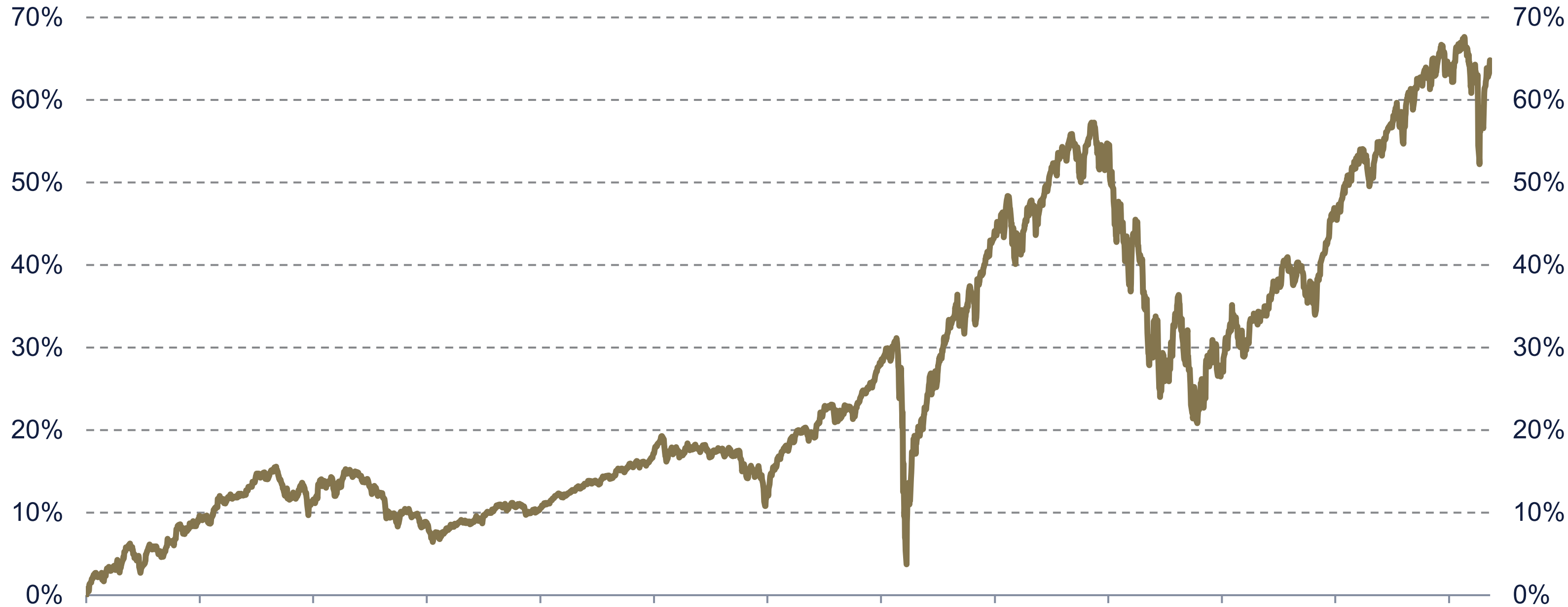
Boreal Balanced Portfolio – Historical performance (2)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return	9.58%	2.05%	-1.80%	1.57%	6.06%	-4.62%	14.67%	12.35%	7.19%	-17.63%	15.26%	13.57%	1.14%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	7.18%	13.64%	6.36%	5.44%	11.58%
Sharpe Ratio	2.54	0.58	-0.72	0.61	3.57	-1.71	3.49	0.87	1.03	-1.38	1.65	1.71	-0.04

Annualized Return: 4.12%
Annualized Std. Dev: 7.30%

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