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# Investment Policy

July 2025

# Our market view in a nutshell – July 2025

- **A Teflon Economy** Despite persistent trade uncertainty, inflation concerns, elevated interest rates, and a sharp escalation in Middle East tensions, the global economy continues to move forward with slow but resilient momentum. Recent employment and consumption data suggest a potential softening in activity, but this stop-and-go pattern has been in place since 2022. Time and again, the economy has defied predictions of a sharp slowdown—proving more resilient than many forecasts would suggest.
- **Not Just a US-phenomena** Economic resilience is not confined to the U.S. Europe, too, has performed better than expected, with strength in the services sector offsetting continued weakness in manufacturing. Eurozone unemployment remains near multi-decade lows, and with inflation at the ECB's 2% target, the central bank has ample room to continue easing—especially if the recent strength of the euro persists. Meanwhile, China has surprised on the upside as well, with growth driven largely by exports. That said, domestic consumption remains tepid, limiting the breadth of the recovery.
- **Tariff-Related Inflation Fails to Materialize** Inflation continues to ease, with Core CPI undershooting expectations for a fifth consecutive month. While tariff announcements created initial concern, the actual inflationary impact has been muted—helped by moratoriums, front-loaded imports, and strategic supply chain adjustments. Some pass-through effects are beginning to show in trade-sensitive categories, but there is little evidence of broader second-round inflation effects spreading across goods and services.
- **Fed Feud** The Federal Reserve appears poised to remain on hold until further data offers clearer direction. Yet divisions within the FOMC are becoming more visible. A very public spat between Donald Trump and Chair Jay Powell—combined with speculation over Powell's future, whether as Chair or remaining Governor—is proving counterproductive. Like Newton's Third Law, Fed independence tends to assert itself in the face of external pressure. Any attempt to steer policy from the outside typically invites a balancing response from within.
- **Bullish Markets Look Past the Noise** Just as the economy has shrugged off dire forecasts, markets have brushed off geopolitical tensions. Even the dramatic military exchanges between Israel and Iran failed to derail equity momentum. This persistent strength suggests underlying buying pressure, underpinned by robust earnings growth. Valuations are undoubtedly elevated, but arguably justified by the promise of AI-driven productivity gains and the prospect of monetary policy normalization. What we are witnessing is rational investor behavior—looking through the thick fog of current headlines to a potentially brighter earnings landscape ahead.

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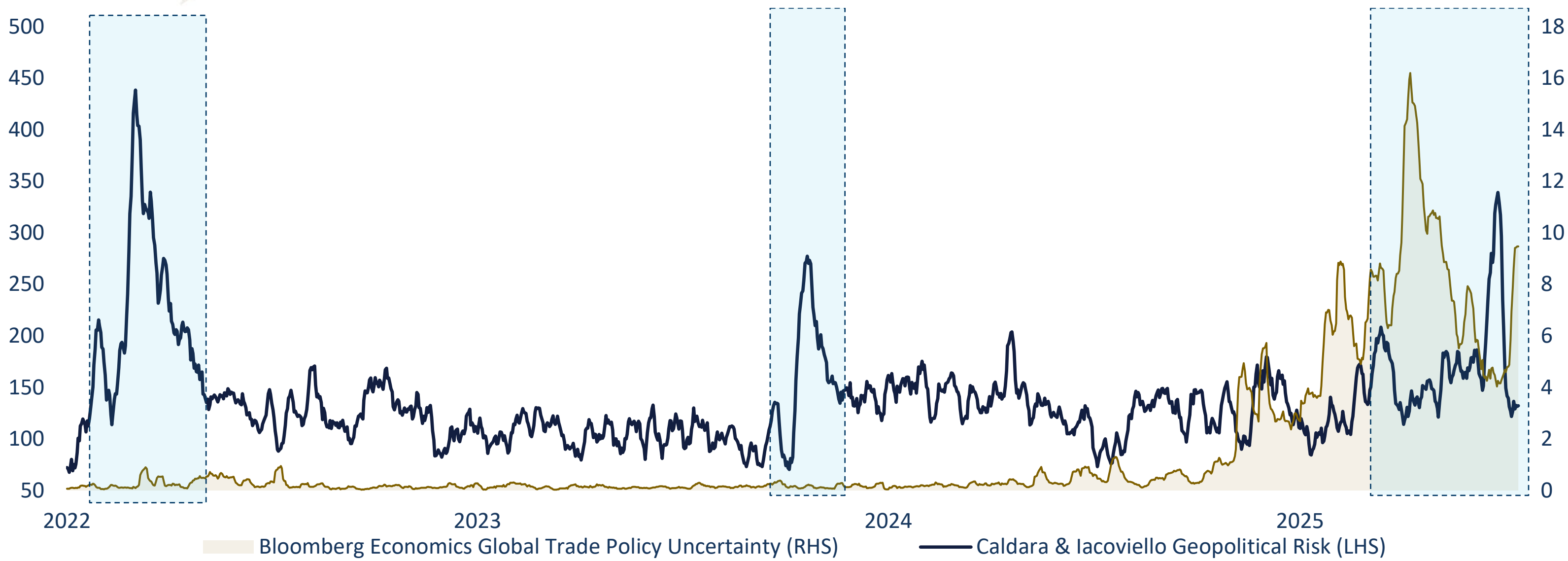
| Asset Class | | View | Rationale |
|---|---|---|---|
| Fixed Income | US Investment Grade | + | Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. We favor short to medium maturities |
| | US Credit | + | Interest rate cuts, controlled inflation, and resilient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

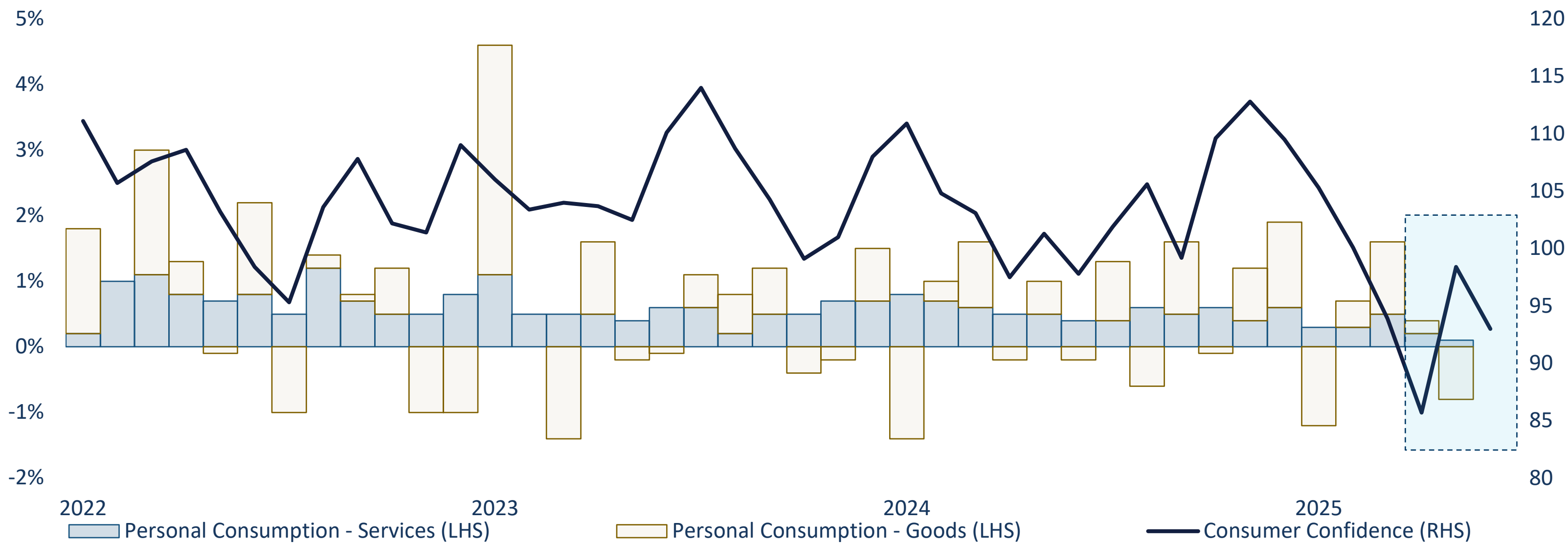
## Twin risks: Geopolitics and Trade




- A **recent flare-up in the Middle East** briefly reignited geopolitical concerns, but a **swift truce helped contain the fallout**. **Energy markets remained stable**, sparing the global economy from broader disruptions and easing near-term anxiety.
- Meanwhile, the **U.S. and China reached a temporary trade truce on June 27**. The deal reduced U.S. tariffs from a peak of 145% to around 30%, while China lowered its tariffs to 10% and eased export restrictions on critical minerals. Though markets welcomed the de-escalation, **core tensions remain unresolved**.

Source: Bloomberg

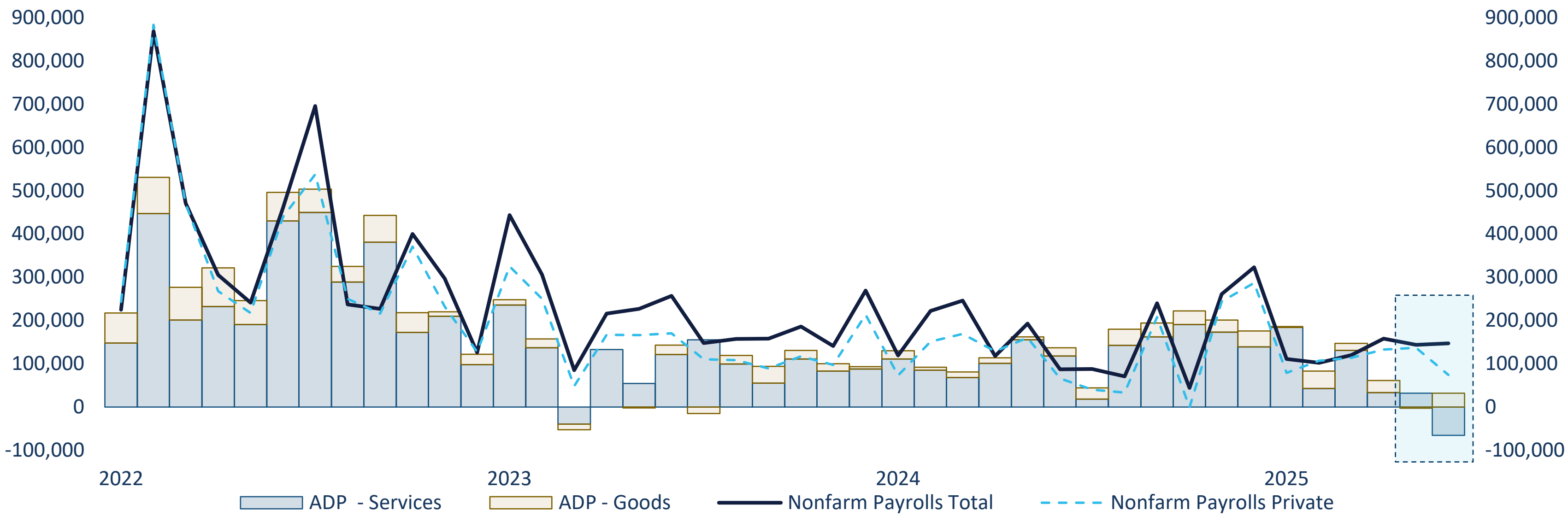
## Another False Signal?




- **Consumption slowed in May**, accompanied by an **unexpected contraction in personal income**—reviving familiar concerns about the **resilience of the consumer**. Yet similar warnings in the past have failed to translate into a meaningful economic slowdown.
- Survey data remains inconclusive. Consumer Confidence, as measured by the **Conference Board**, fell again, while the **University of Michigan's** Consumer Sentiment index rebounded—though from historically low levels. As in previous episodes, the signal remains murky.

Source: Bloomberg

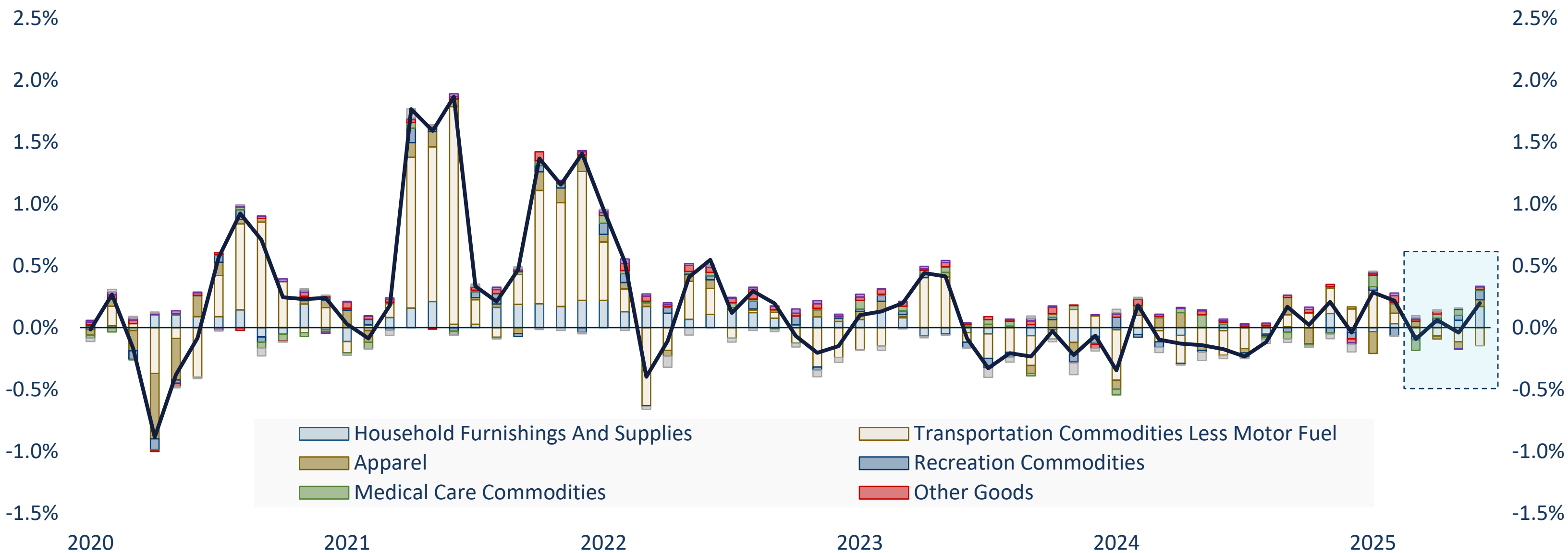
## Cooling Too Much?




- The labor market—long a key pillar of U.S. economic strength—is now showing **signs of strain. Private non-farm payrolls surprised to the downside**, and the **ADP employment report** indicated a **contraction in services**.
- Survey data was similarly mixed. While the **unemployment rate improved slightly**, falling from 4.3% to 4.1%, **the employment components of both manufacturing and services PMIs** remained in contraction territory. The overall picture suggests a **labor market that may be cooling more than anticipated**.

Source: Bloomberg

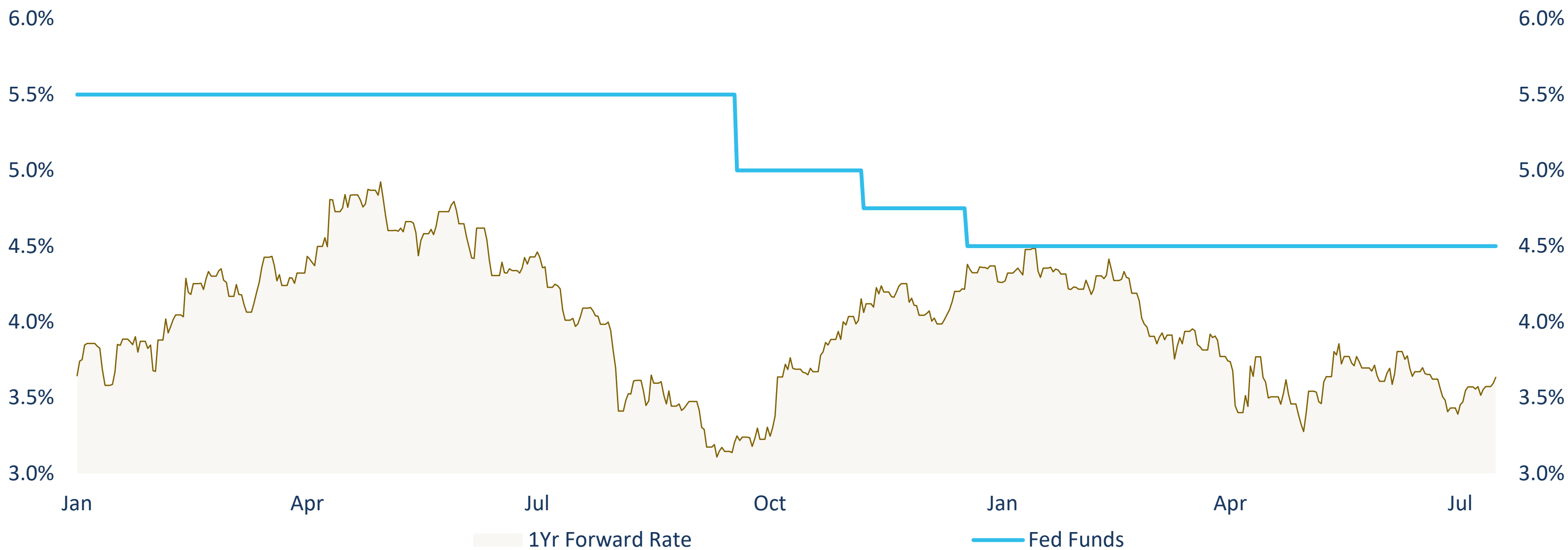
# Scant Evidence From Tariffs So Far




- **Core CPI** (excluding food and energy) rose just 0.2% month-over-month in June, coming in **below expectations for the fifth consecutive month**. On a year-over-year basis, Core CPI increased to 2.9%, still **within sight of the Fed's 2% inflation target**.
- Goods disinflation remains intact, and **services inflation is beginning to show signs of easing**. Shelter costs continued to moderate, while tariff-sensitive categories such as apparel and household goods remained subdued—suggesting that, for now, **the pass-through from recent trade measures has been limited**.

Source: Bloomberg

# The Fed Bides Its Time




- The **Fed remains in wait-and-see mode,** signaling no urgency to cut rates as long as the economy holds up and inflation continues to ease. Officials are watching closely for signs of slowdown but are **not inclined to move preemptively**.
- **Tariff impact still uncertain**: With front-loaded imports and muted inflation pass-through so far, the Fed prefers to gather more evidence before reacting.

Source: Bloomberg

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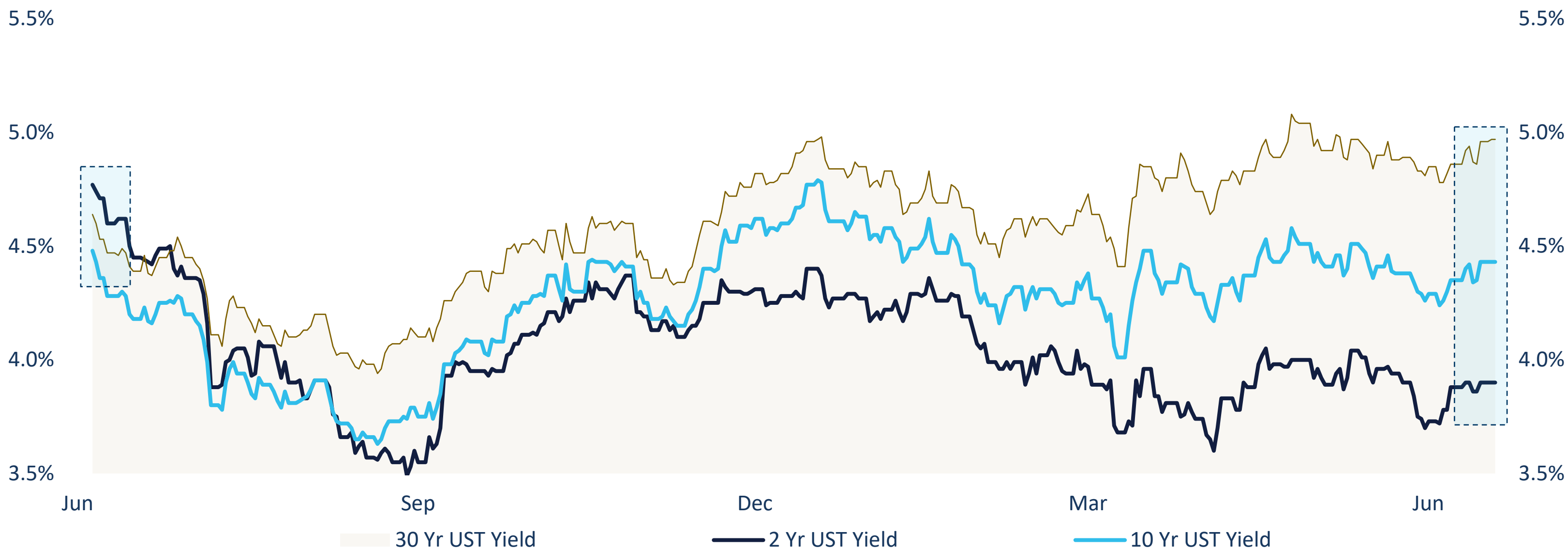
# Long Story Short




- The **sweeping reforms of the new Administration** have raised concerns about the **soundness of U.S. assets**—particularly the dollar and Treasury markets. While some of these fears may be exaggerated, stemming from the combative tone surrounding tariffs, the large inherited fiscal deficit and the growth gamble embedded in the new OBBB have reinforced this perception.
- As a result, **the yield curve has steepened sharply**, with a gap of over 1% between short- and long-term rates.

Source: Bloomberg

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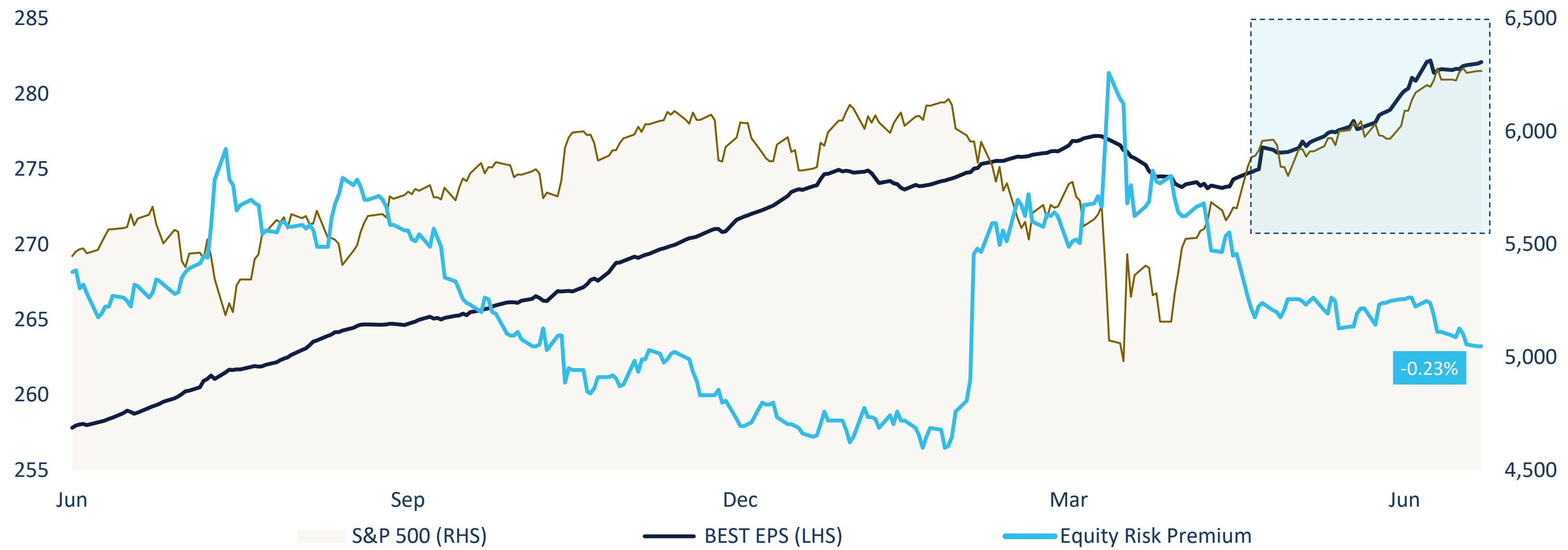
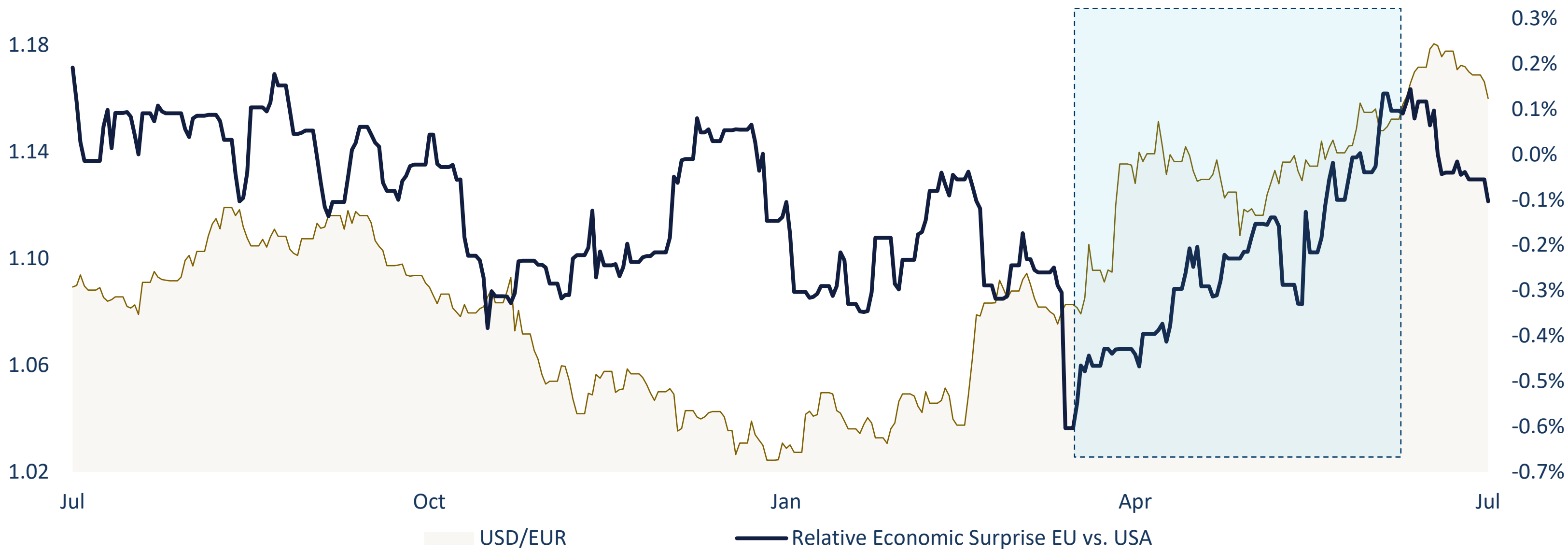
# It is about earnings growth (with an option on AI)




- Valuation multiples like **Price-to-Earnings and Price-to-Book remain elevated**, but it's the **earnings trajectory** that continues to anchor equity markets.
- As **Q2 reporting season** begins—clouded by **uncertainty around tariffs**—investors will be watching for signs of resilience. The **growing integration of AI** across industries could unlock a significant boost in productivity, reinforcing the case that now is **not the time to be overly concerned about elevated valuations**.

Source: Bloomberg

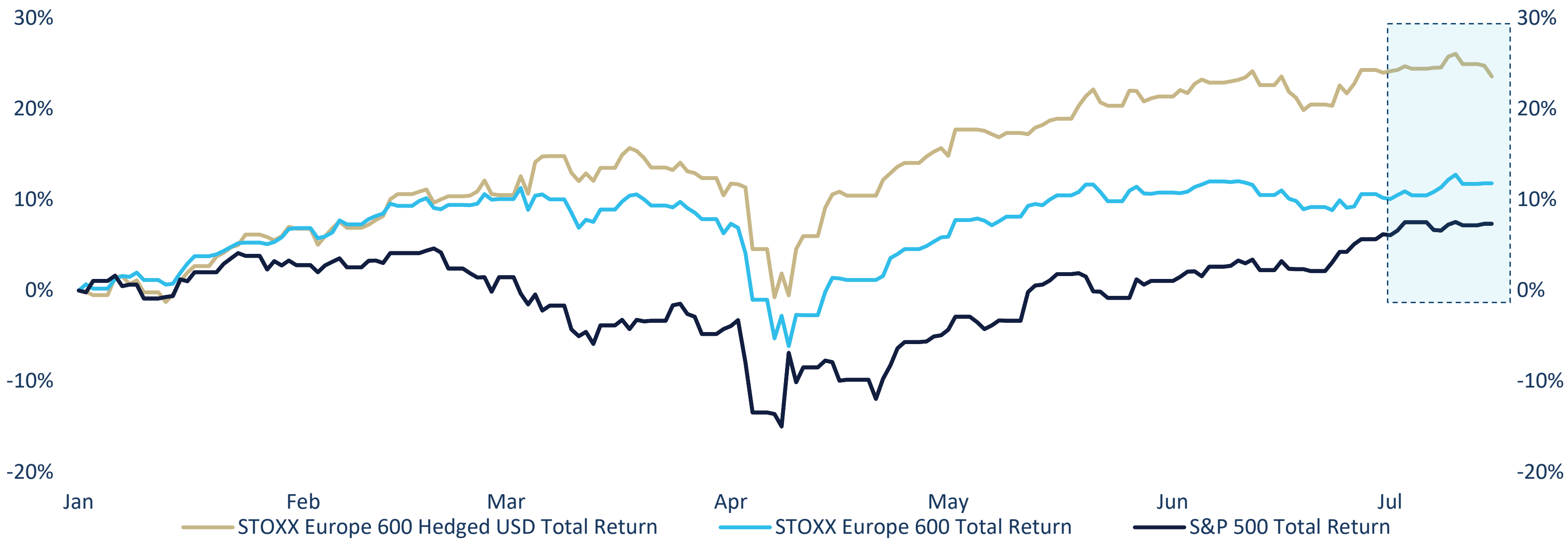
# Europhoria: Can It Last?




- Momentum in **European assets** has been building since Germany's official announcement of a major fiscal policy shift in March. This structural turn, centered around increased public investment and debt flexibility, has acted as a **catalyst for renewed investor interest** across the region.
- Despite the shift in sentiment, **positive interest rate differentials** and the prospect of **narrowing U.S. trade deficits** should limit the pace and extent of Euro appreciation—providing a more balanced environment for European risk assets.

Source: Bloomberg

# Europe's Brief Lead Narrows




- European equities have benefited from **lower valuation multiples** and a growing perception as a **relative "haven"** amid the increasingly unpredictable U.S. political and policy environment. This combination has driven a **rare period of outperformance relative to U.S. markets**.
- However, U.S. equities continue to display a **far stronger earnings growth trajectory**. As geopolitical noise begins to fade from the foreground, investor focus is likely to **shift back toward fundamentals**—particularly innovation and long-term growth—gradually narrowing the performance gap.

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** | 30% (+5%) | 40% | 30% (-5%) |

**Short-term catalyzers**

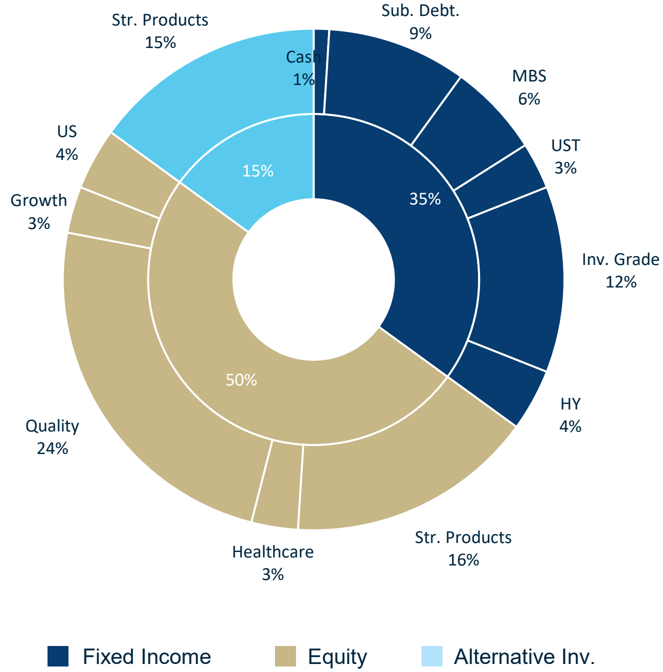
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

**Other risks**

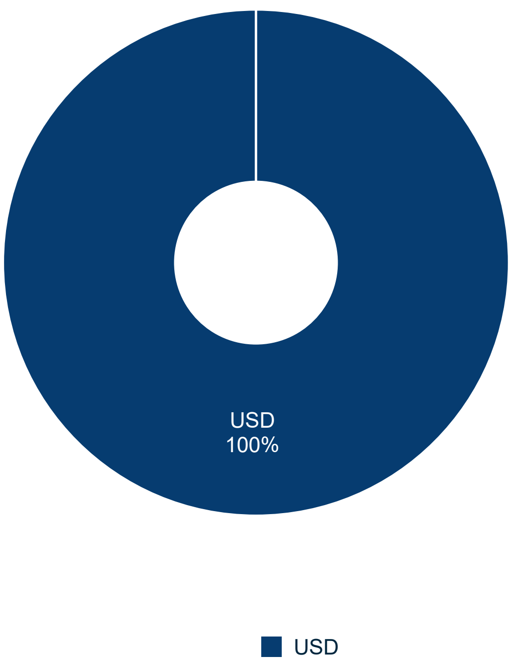
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

# Boreal Balanced Portfolio USD

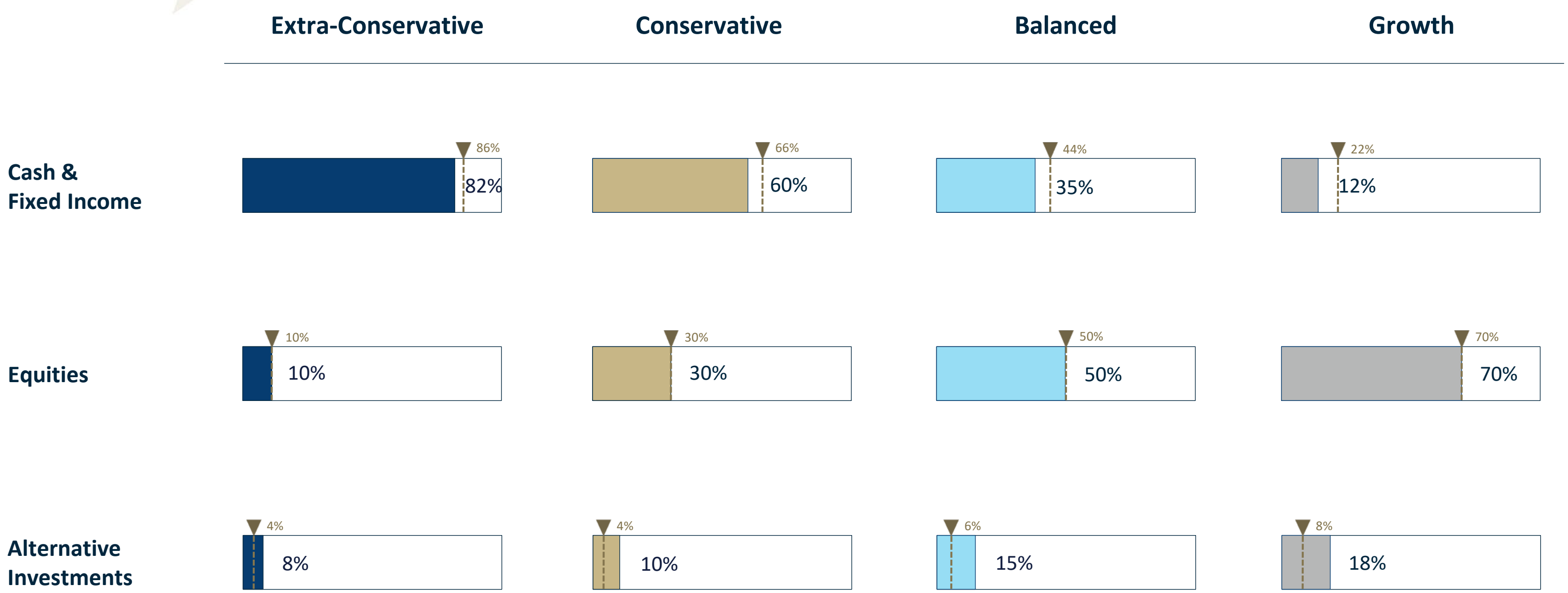
**Asset Allocation**




**Currency Allocation**

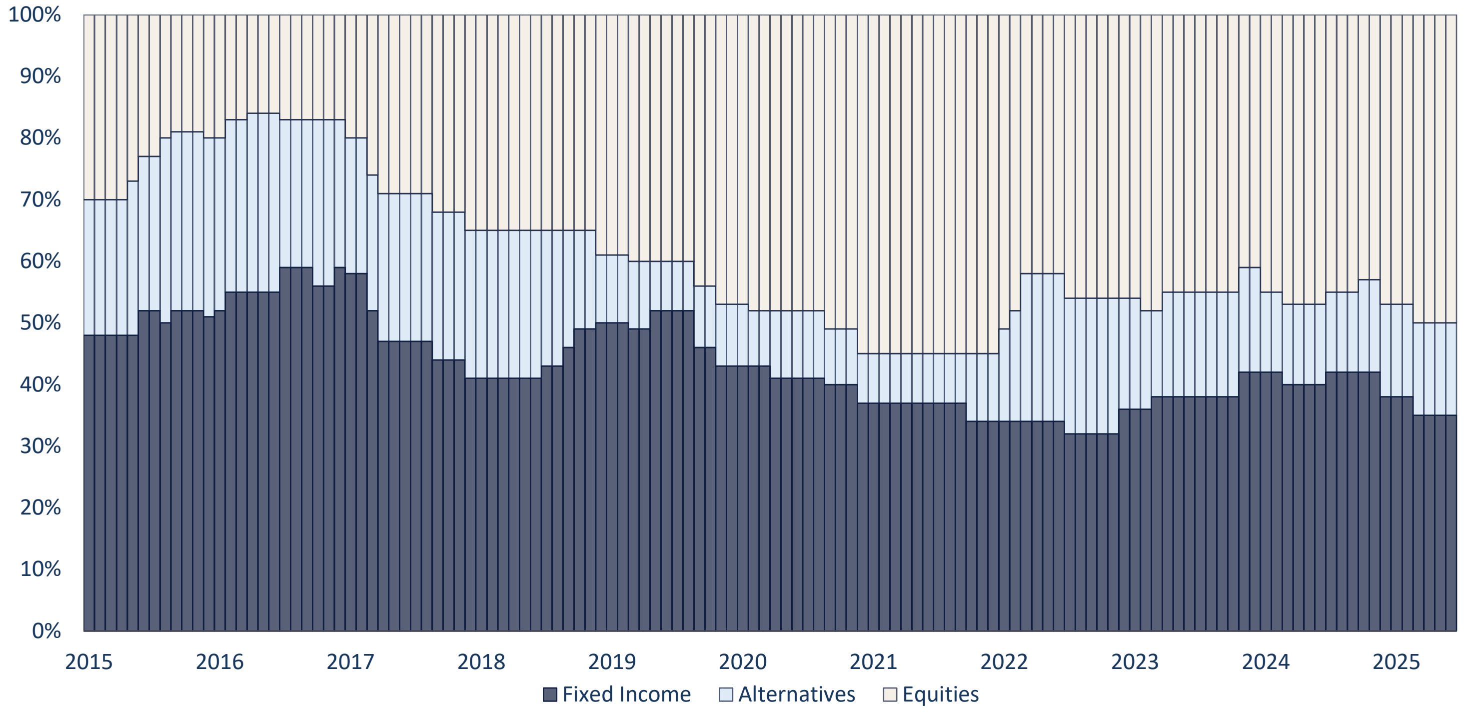


# Boreal Investment Profiles




▼ Strategic Asset Allocation

# Boreal Balanced Portfolio – Asset Allocation evolution



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