BOREAL
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# Investment Policy

August 2025

# Our market view in a nutshell – August 2025

- **From Chaos to Clarity** After a seemingly chaotic start, the Trump administration appears to be successfully assembling the pieces of its policy puzzle. Following months of frenetic negotiations—both international and domestic—a new order is taking shape. Rather than the radical break feared back in April, the outcome has been a significant and rapid improvement in U.S. terms of trade, alongside a tax reform that makes the Tax Cuts and Jobs Act (TCJA) provisions permanent. While side effects cannot be ruled out—higher prices, pressure on growth abroad, and a wider fiscal deficit—the near-term result is a sharp decline in uncertainty and a meaningful boost to the U.S. economy.
- **Cool Heads Rewarded**. Investors who stayed calm and filtered out the noise of political theatrics and media frenzy have been well rewarded. Equity indices stand at record highs, global trade continues, and corporate profits are advancing at a strong pace. The lesson is timeless: maintaining an investor mindset is essential to avoid panics and manias. Over the long term, it is the steady march of human ingenuity and innovation that propels profits and, ultimately, stock prices.
- **AI as the Wild Card**. Today, the greatest risk for investors may not be high valuations per se, but rather the challenge of pricing the transformative potential of artificial intelligence—while avoiding speculative bubbles. One way to frame this is as an option premium: how much should a rational investor pay for disruptive innovation? When Netscape launched in December 1994, the S&P 500 traded at 15x earnings; by the end of 1999, nearly 30x. By contrast, when ChatGPT was released in November 2022, the market stood at 18x earnings, and now trades around 24x.
- **The Fed's Balancing Act**. In the short to medium term, macro still matters. Business cycles and interest rates can push profits off their long-term trajectory. Current valuations are more easily explained if one assumes interest rates will fall from current levels—the market is pricing five cuts over the next year. So far, the Fed has erred on the side of caution, wary of tariff-driven inflation as long as the economy shows resilience. Yet the landscape is shifting: labor market revisions point to much weaker job creation than expected, while Q2 GDP confirms consumption is moderating—factors that may push the Fed toward more decisive action.
- **Currency Realignments and Gold's Appeal**. The recent dollar depreciation appears driven more by portfolio flows than fundamentals. Still, fiscal concerns persist, as the OBBB strategy essentially bets on growth to resolve imbalances. Meanwhile, the "weaponization" of U.S. economic policy—and the dollar in particular—has strengthened the case for central banks to accumulate gold, propelling its price higher. That said, it is worth remembering that despite its reputation as a store of value, gold remains a risk asset.

# 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 |
| Fixed Income | 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 |
| Fixed Income | 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 |
| Fixed Income | 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 |
| Fixed Income | 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. |
| Equities | 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 |
| Equities | Asia | = | We recommend investing selectively in the region. Despite low valuations, China remains an area of concern |
| Equities | 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 |
| Equities | 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 |
| Alternative Investments | 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 |
| Alternative Investments | 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

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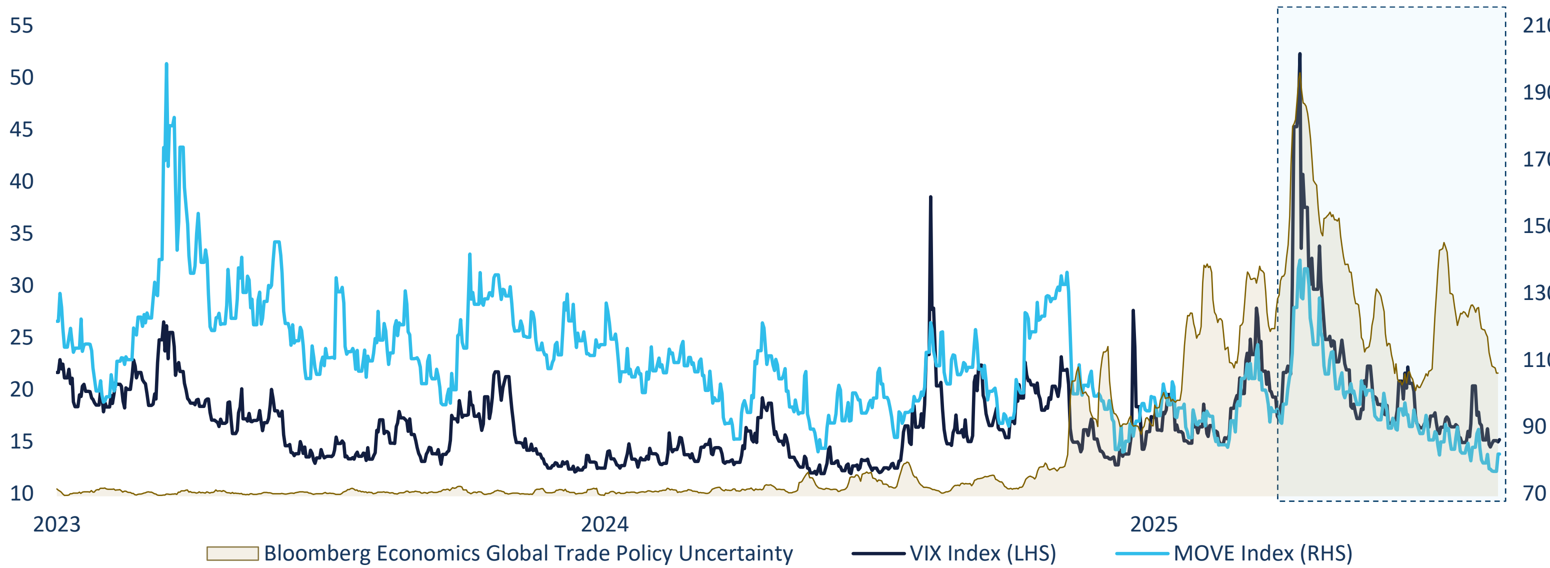
# Uncertainty Eases




- After months of negotiations, **greater clarity on trade, tax policy, and geopolitics** has sharply reduced perceived uncertainty, though risks from inflation and fiscal pressures remain.
- **Volatility across equities and bonds has eased** from spring peaks, restoring investor confidence but leaving markets sensitive to shifts in growth data or Fed action.

Source: Bloomberg

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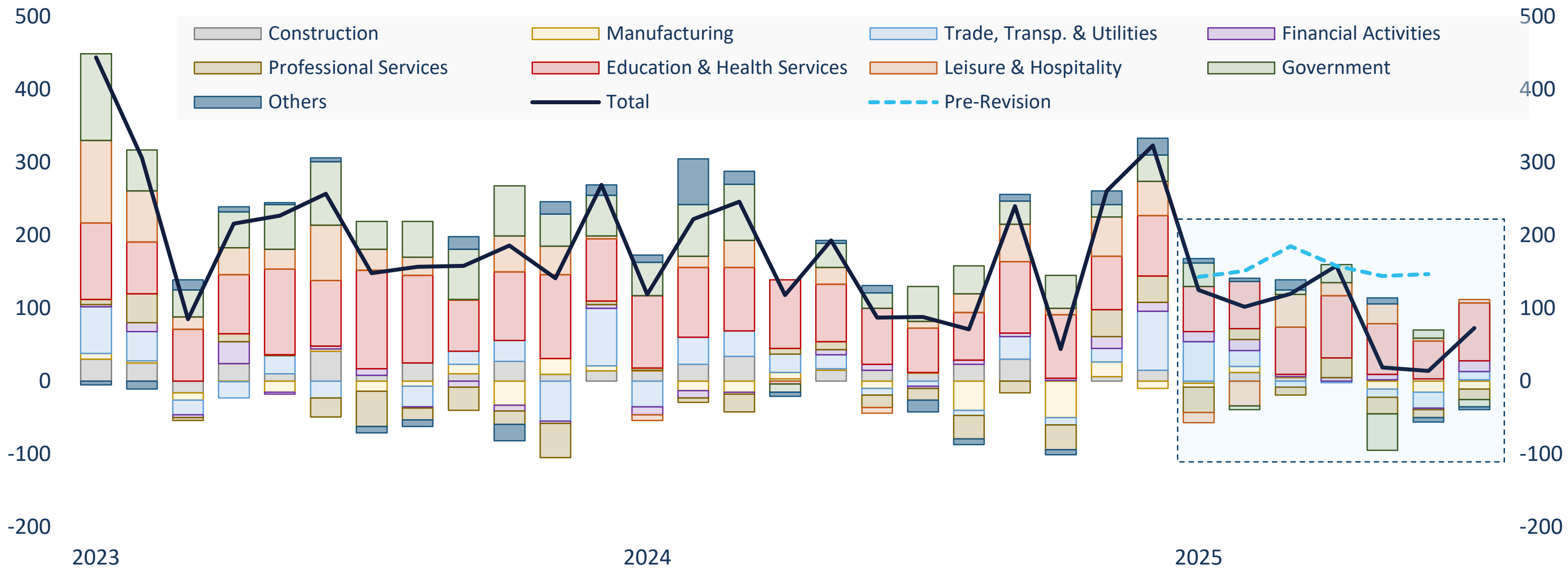
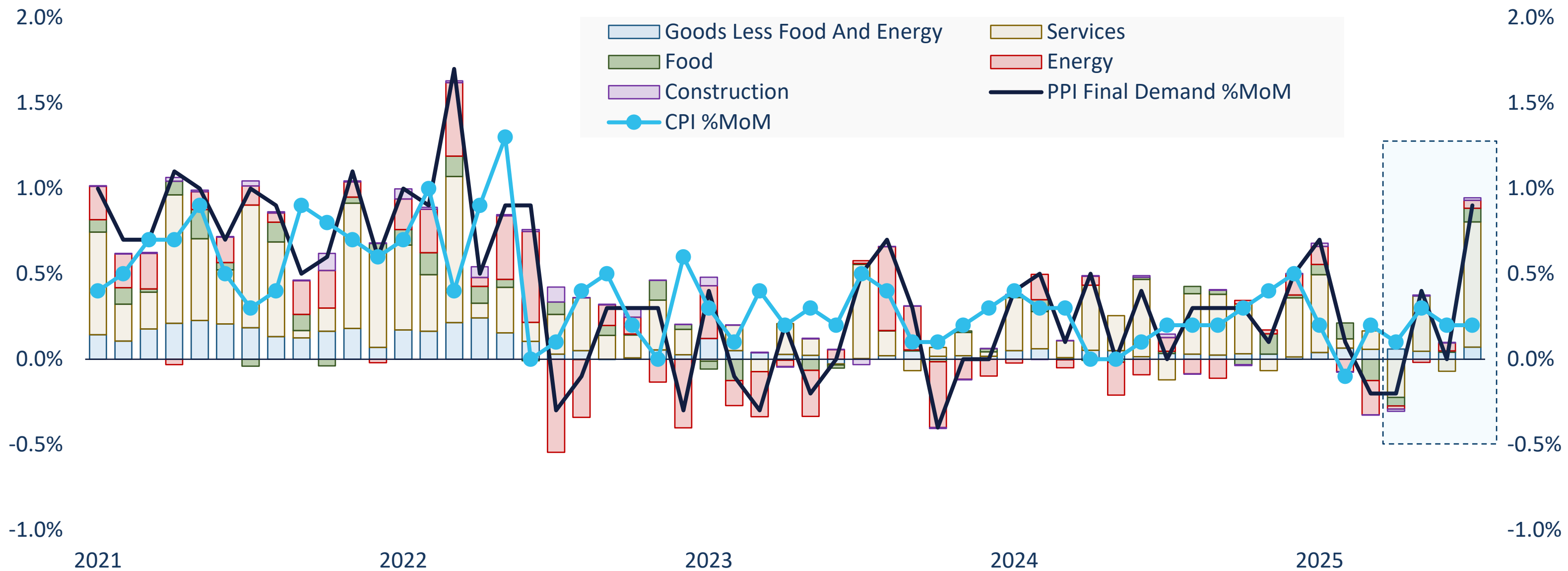
# Weakness Revealed




- **US payroll growth slowed dramatically over the past three months**, with revisions revealing a much weaker pace of job creation than initially reported.
- Hiring momentum has slowed across key sectors, while the **unemployment rate edged up to 4.2%**—still low by historical standards but raising concerns about the sustainability of consumption and overall economic resilience.

Source: Bloomberg

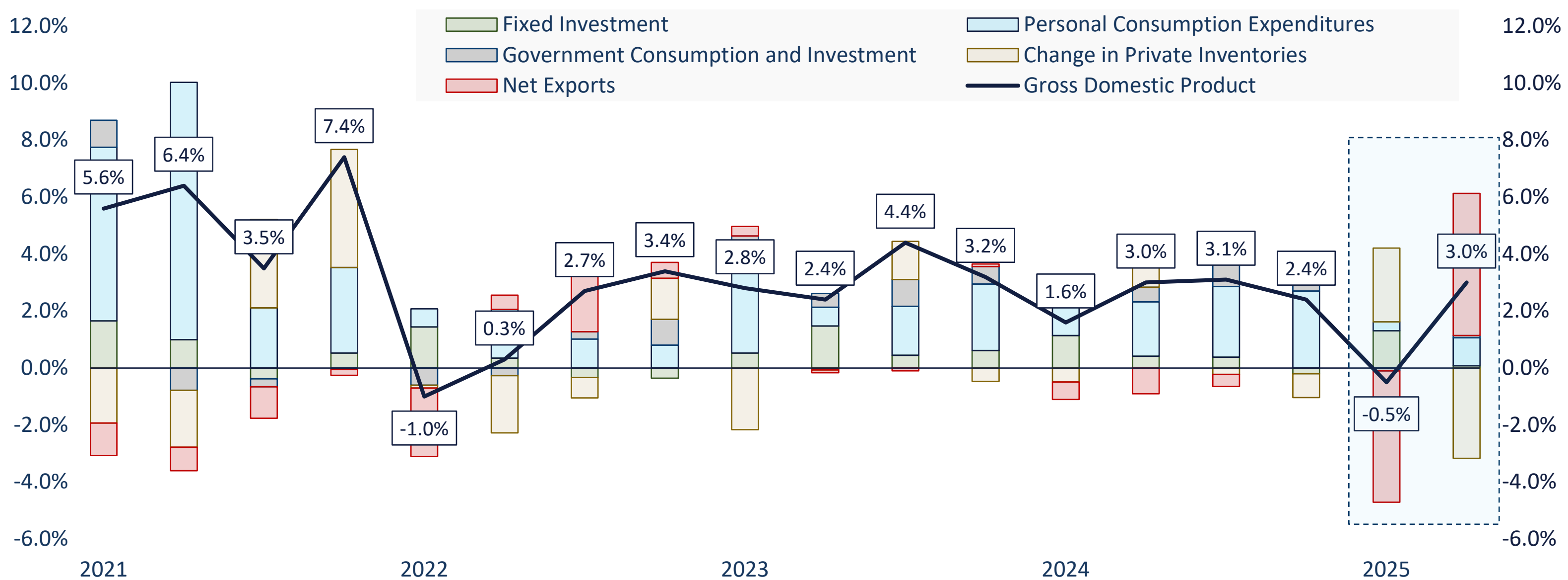
# Too Much Data Anxiety




- **CPI and Core CPI were in line with expectations**, but markets shifted focus to a sudden **spike in PPI data** as potential signs of tariff pass-through**.**
- The increase was concentrated in the **services component**, which may reflect tariff effects—or may simply be a myopic read of noisy data—yet it was enough to **revive debate over renewed Fed vigilance**.

Source: Bloomberg

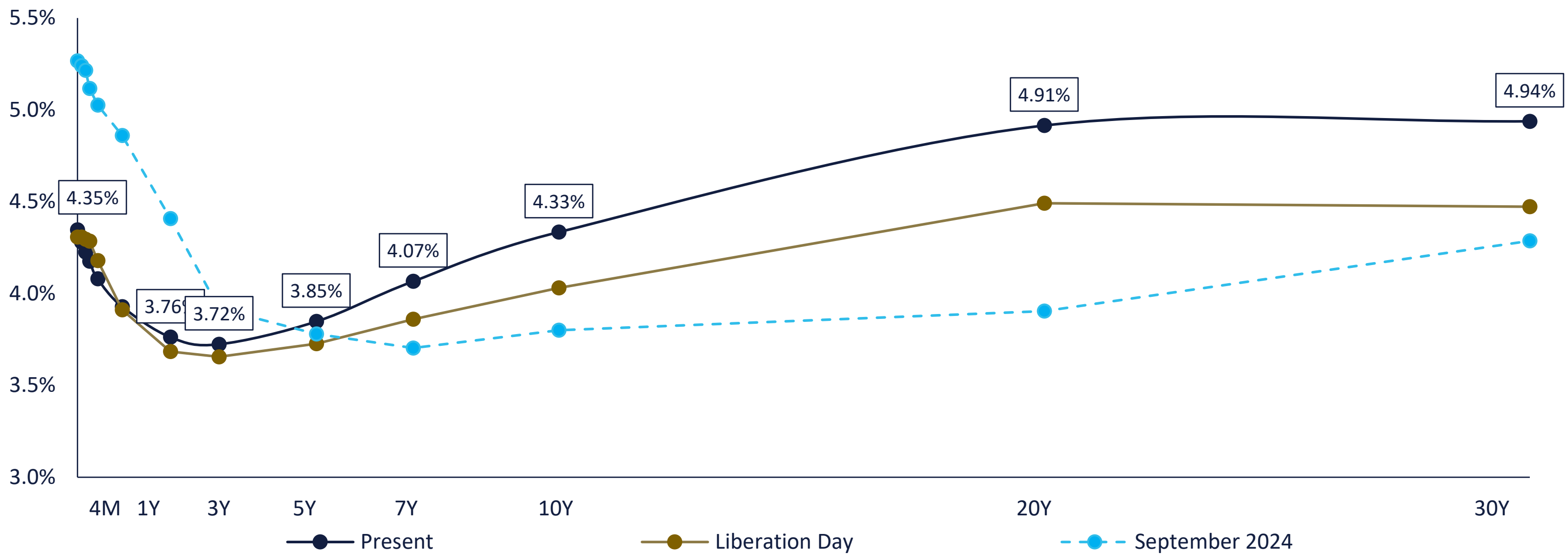
# Fragile Growth in an Abnormal Setting




- **Q2 GDP rebounded as expected,** following the Q1 contraction caused by front-loading of imports, but underlying demand remained weak, with **consumption soft for a second consecutive quarter** and further drags from housing and reduced federal spending.
- Swings in the **external sector and inventories**, after companies front-loaded imports earlier in the year, further distorted growth and underscored a more fragile demand backdrop.

Source: Bloomberg

# Monetary and Fiscal Policy Bend the Curve




- The short end of the curve reflects **monetary policy expectations**, with markets pricing in **five Fed rate cuts** over the next year.
- The long end is increasingly shaped by **fiscal concerns, heavy Treasury issuance, and higher term premia**, as the supply of debt needed to finance persistent deficits keeps upward pressure on yields despite the prospect of policy easing.

Source: Bloomberg

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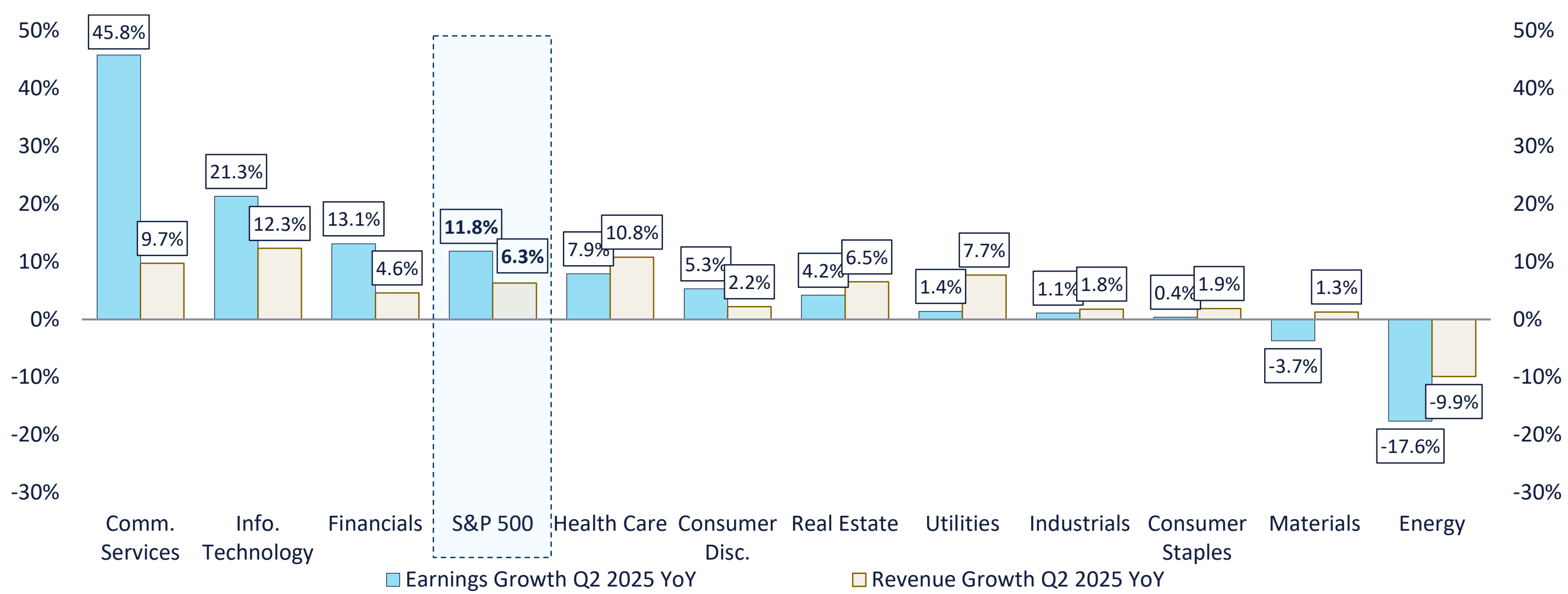
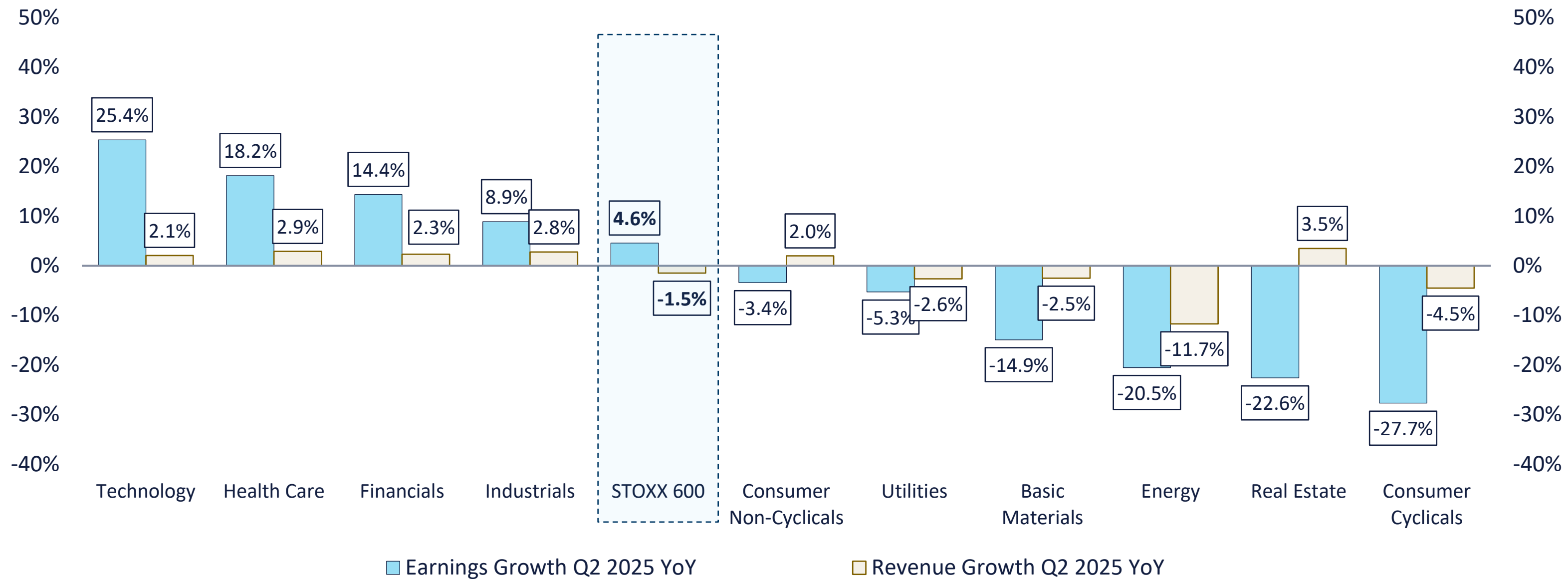
# U.S. Exceptionalism Continues




- S&P 500 **earnings grew 11.8% YoY in Q2**, with **81% of companies beating EPS estimates** and revenues up 6.3%—marking a third consecutive quarter of double-digit profit growth.
- Results were broad-based, led by **Communication Services (+45.8%)** and **Technology (+21.3%)**, while **Energy (-17.6%)** and **Materials (-3.7%)** dragged. Forward guidance remains cautious, highlighting risks from tariffs and slowing consumption despite strong profit momentum.

Source: Bloomberg

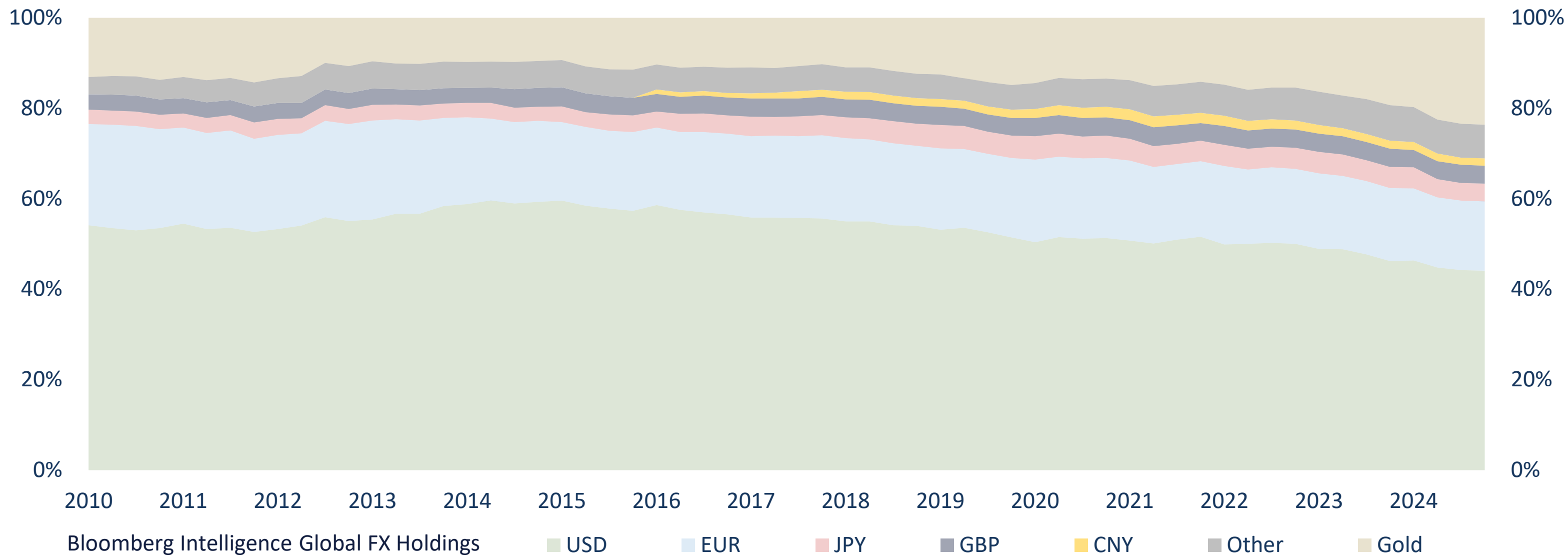
# Europe Trails U.S. Momentum




- **Stoxx 600 earnings grew just 4.6% YoY in Q2**, far below the **11.8%** growth seen in the S&P 500. Revenue growth declined by –1.5%, underscoring weaker demand dynamics.
- Strength was concentrated in **Technology (+25.4%)** and **Health Care (+18.2%)**, but broad weakness in **Consumer Cyclicals (–27.7%)**, **Real Estate (–22.6%)**, and **Energy (–20.5%)** weighed heavily on overall results.

Source: Bloomberg

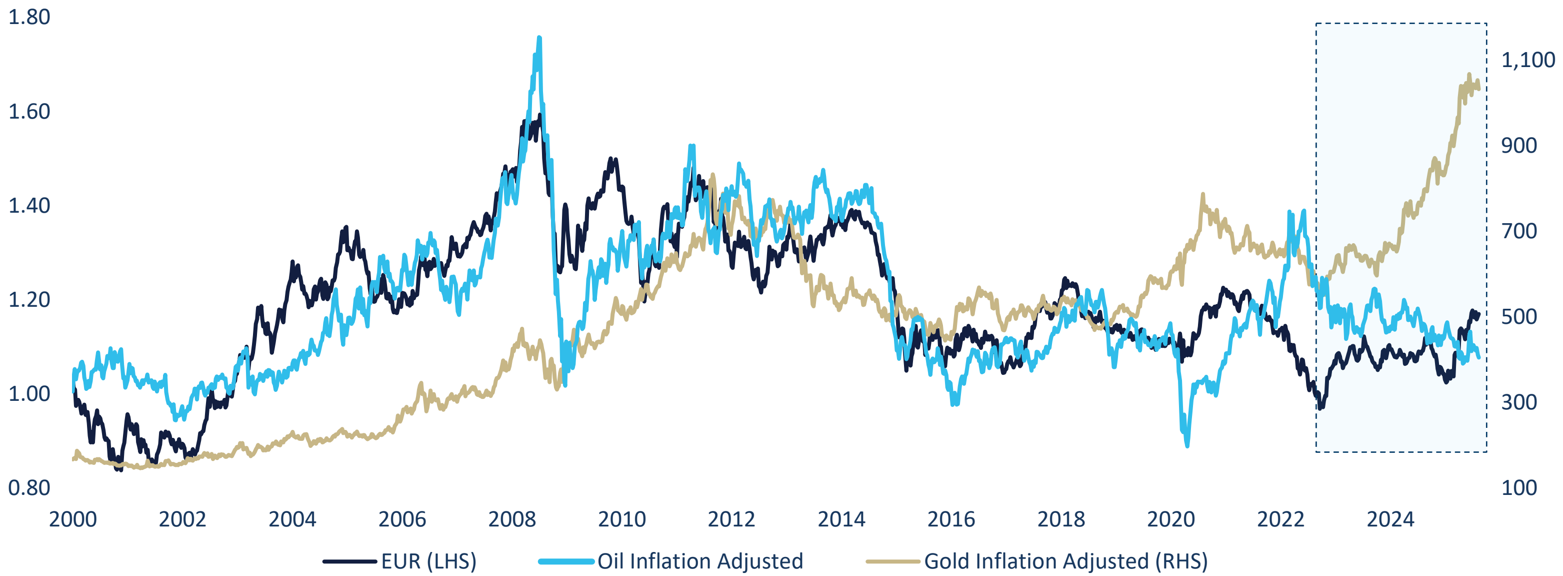
# Dollar Weak, Reserve Status Intact




- The recent **dollar depreciation** and debate over the "weaponization" of U.S. economic policy have fueled speculation about the decline of its reserve role. **Yet no rival currency has gained meaningful share**—the Euro has actually lost importance.
- The only visible increase has been in **gold holdings**, up in part because **prices have surged by over 200% since 2010**, rather than a structural reallocation away from the dollar.

Source: Bloomberg

# Beware Safe Havens




- The historical **inverse correlation between dollar strength and oil prices** has recently broken, with oil prices remaining subdued despite the weaker USD.
- **Gold has surged far beyond what past inflation would justify**, driven by safe-haven demand and policy anxiety, but it is crucial to remember that **gold is ultimately a risk asset**.

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** | 35% (+5%) | 50% (+10%) | 15% (-15%) |

**Short-term catalyzers**

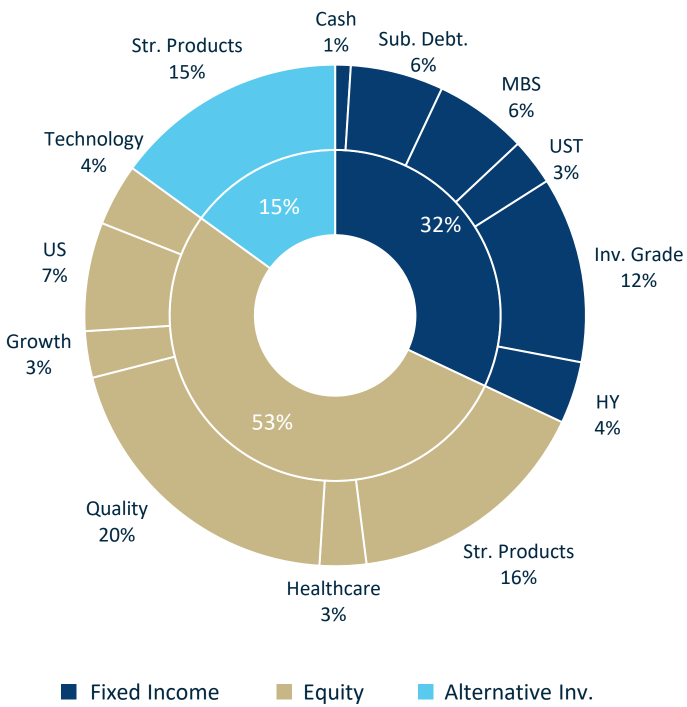
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

**Other risks**

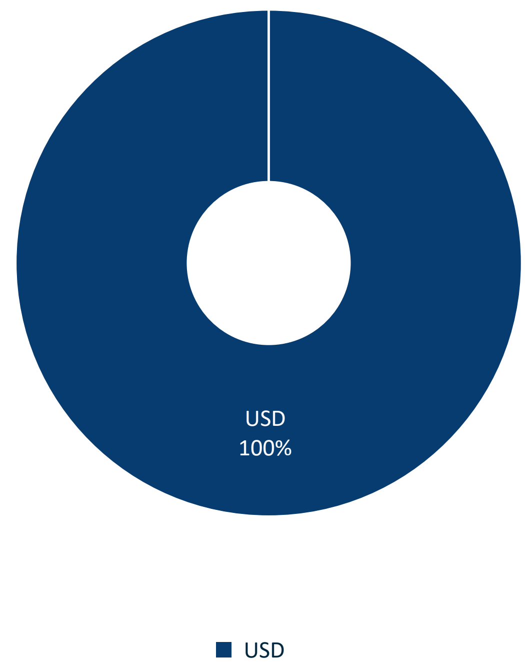
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

# Boreal Balanced Portfolio USD

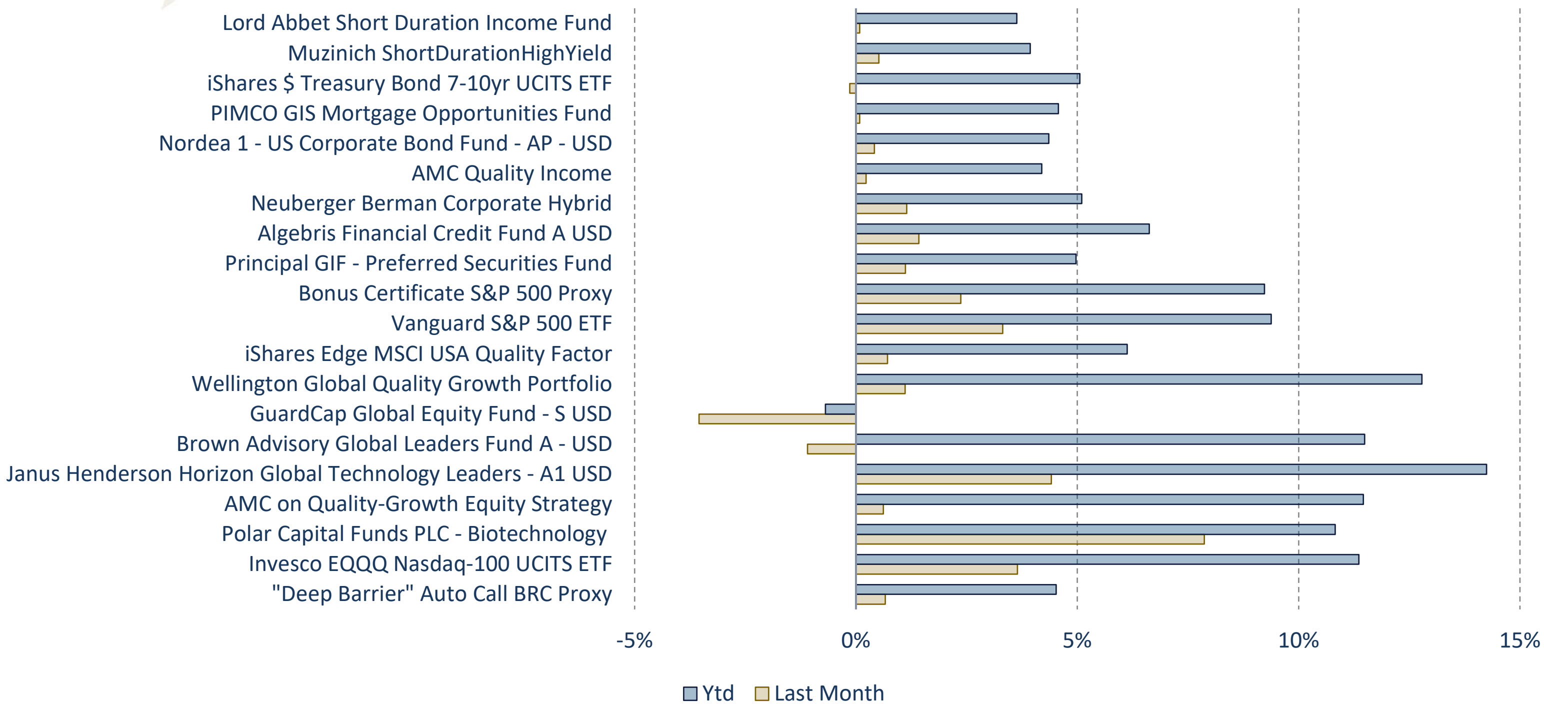
### Asset Allocation




### Currency Allocation



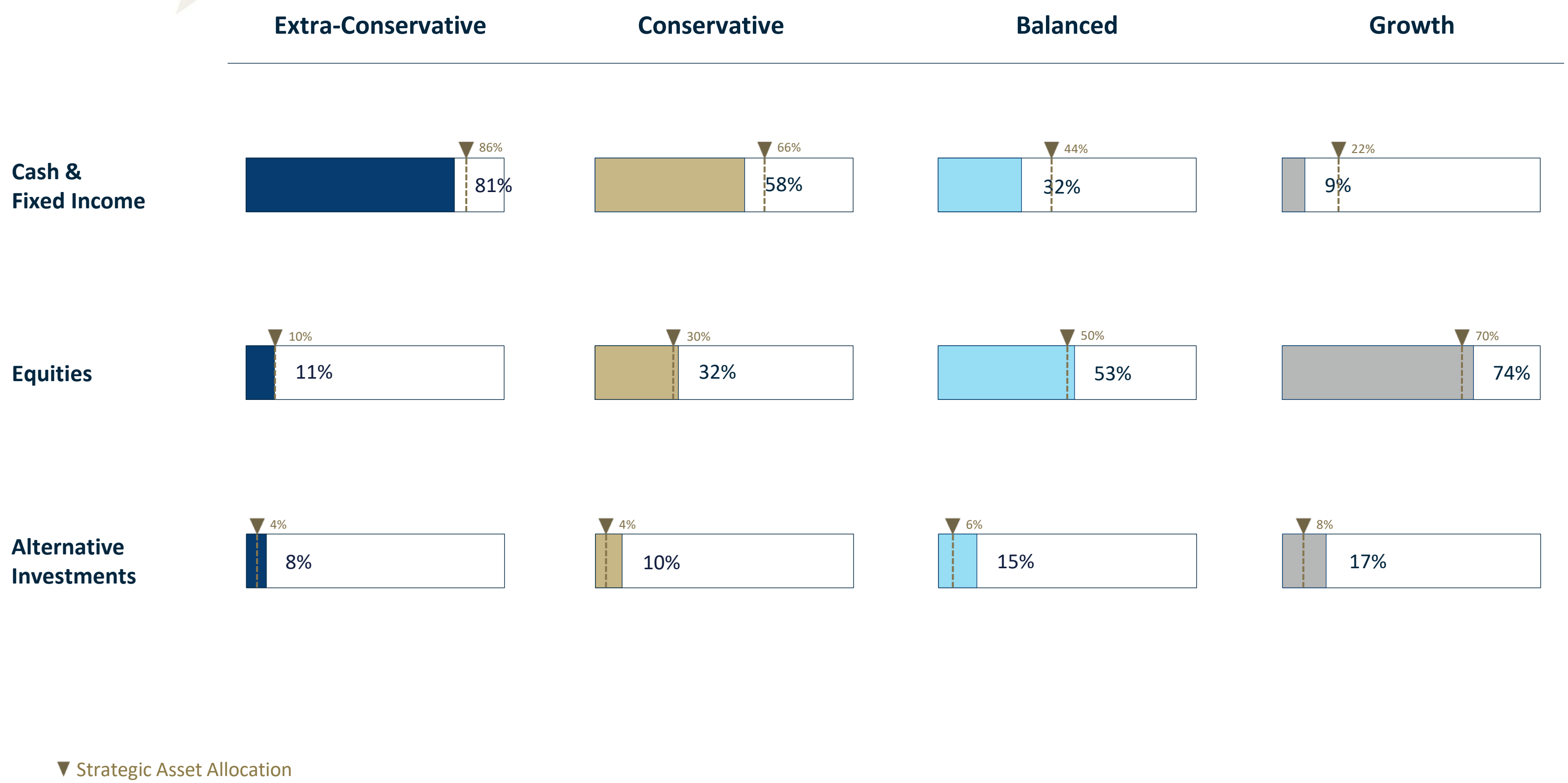
# Model portfolio evolution



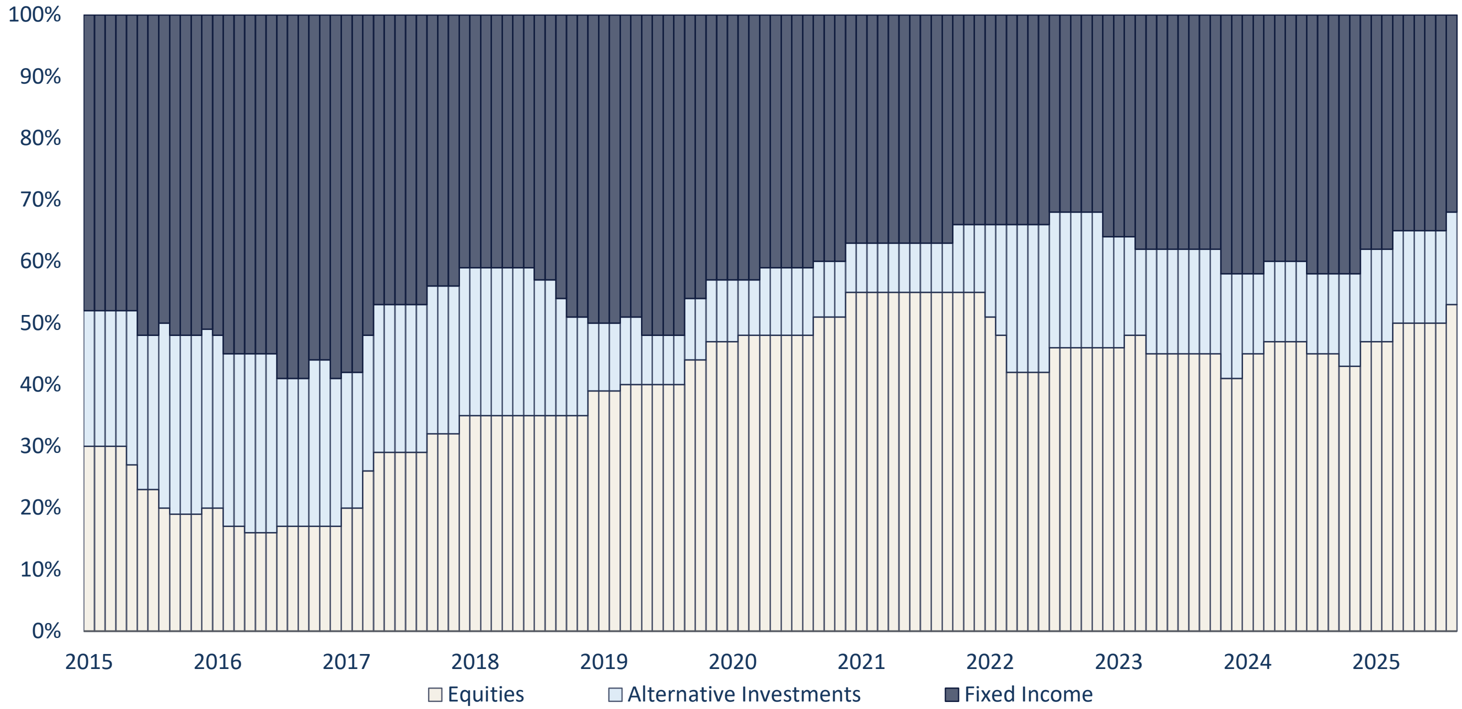

Source: Bloomberg, as of August 18, 2025

* Fund publishes monthly NAV with a 1 month of delay

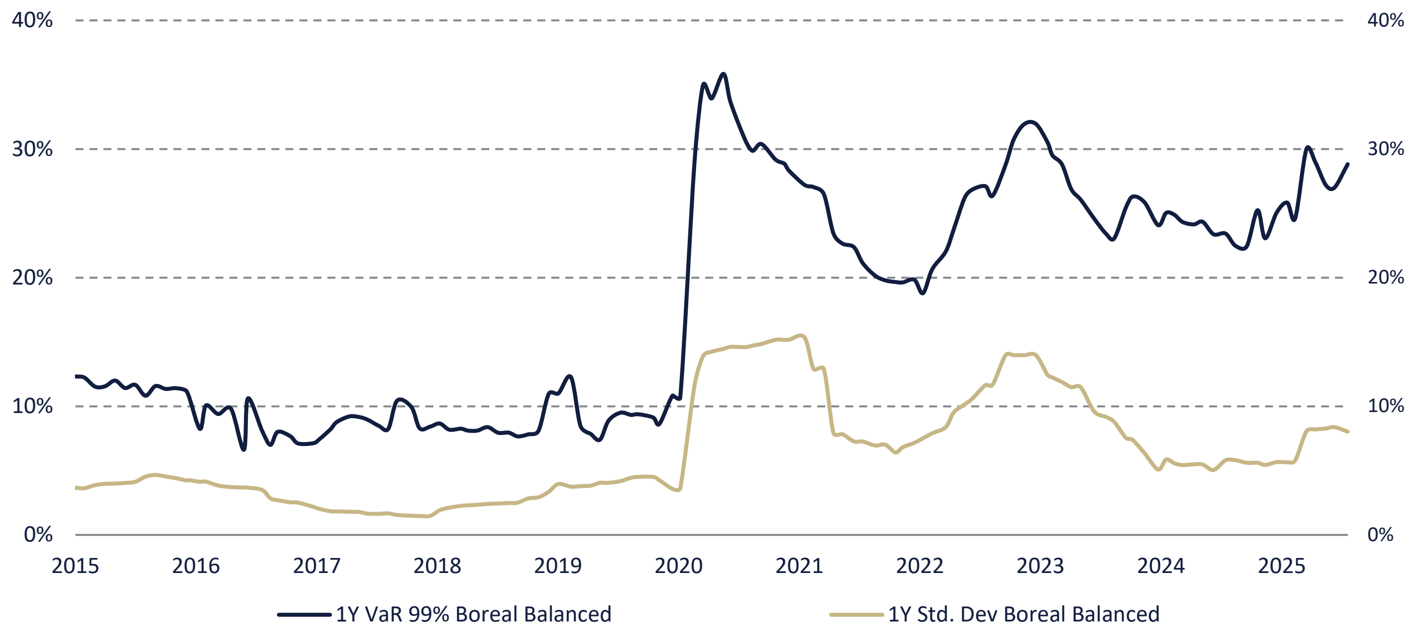
# Boreal Investment Profiles



# Boreal Balanced Portfolio – Asset Allocation evolution

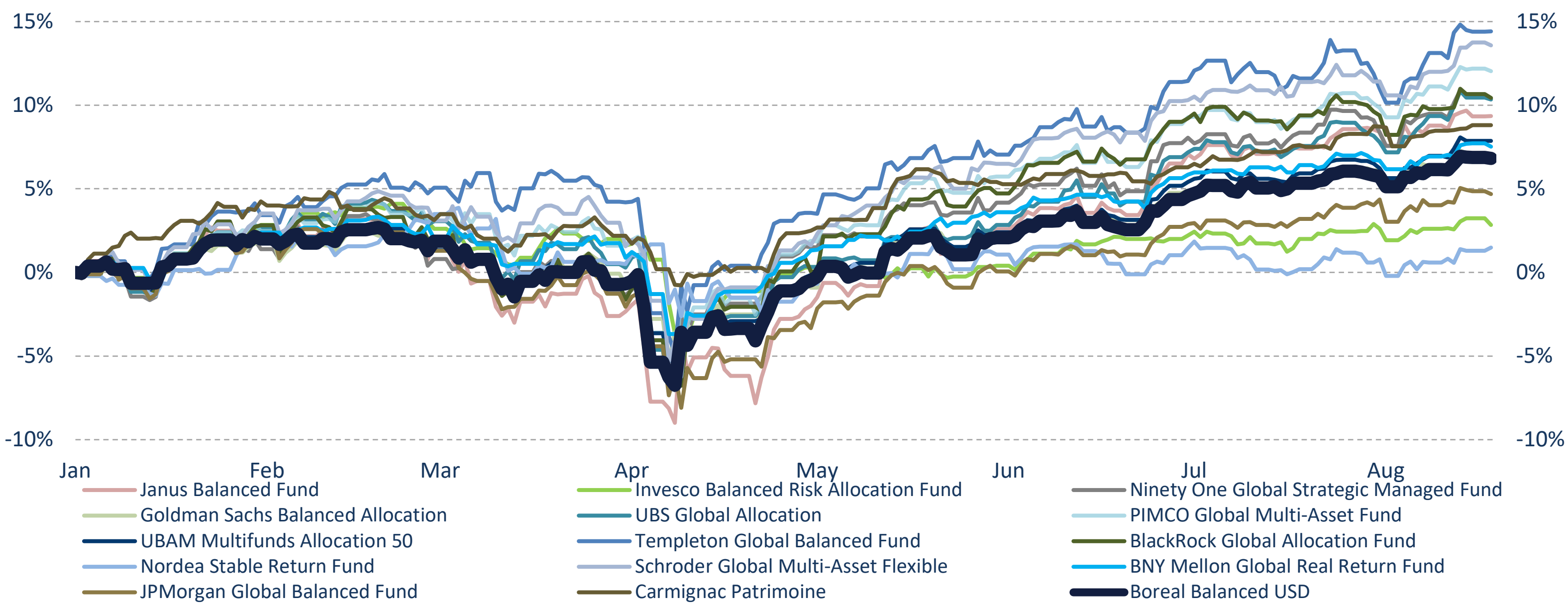


# Boreal Balanced Portfolio – VaR evolution




Data as of Bloomberg, as of August 18, 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): **12th**
- **Standard Deviation** (YTD): **6th**
- **Downside Risk** (YTD): **6th**
- **Sharpe Ratio** (YTD): **12th**
- **Sortino Ratio** (YTD): **12th**

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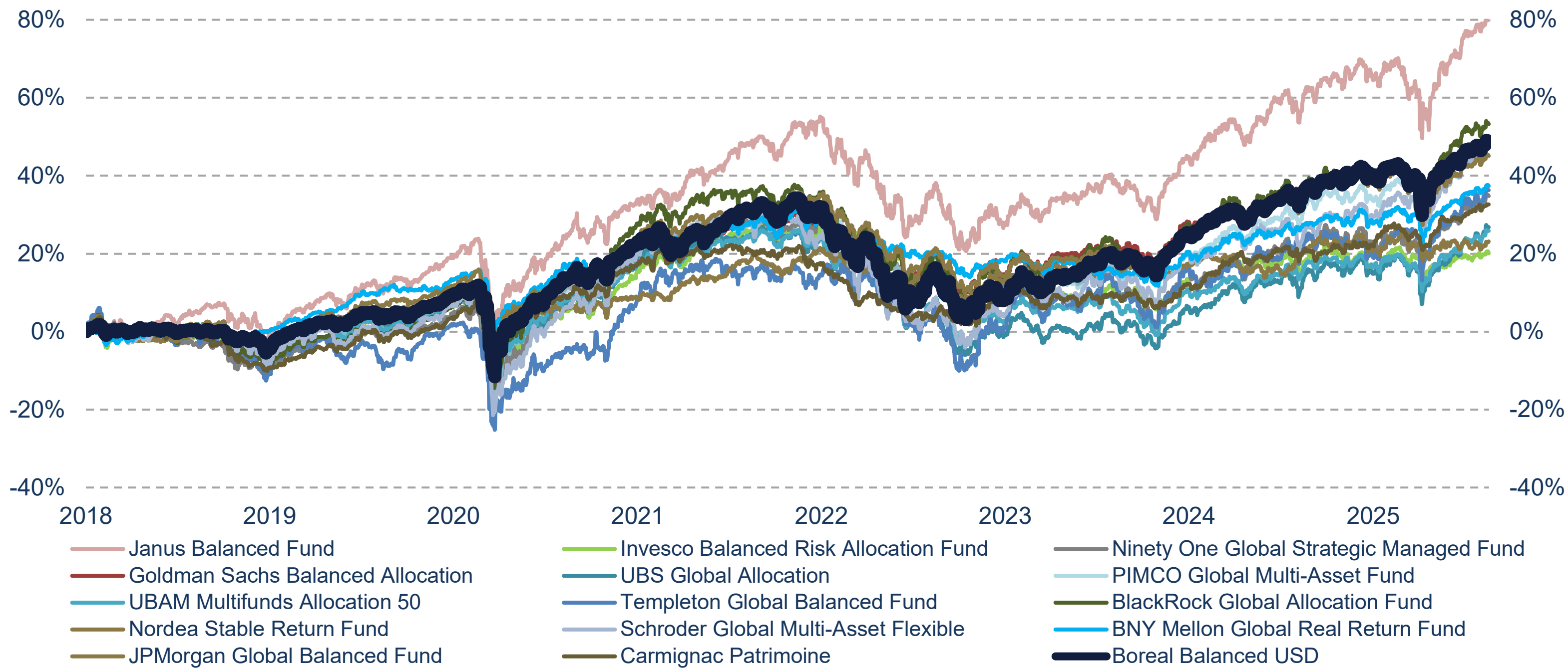
# Boreal Balanced Portfolio – Peer comparison (2)

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# Boreal Balanced Portfolio – Ytd performance


- **Total Return** (YTD): **6.82%**
- **Standard Deviation** (YTD): **9.29%**
- **Downside Risk** (YTD): **6.83%**
- **Sharpe Ratio** (YTD): **0.78**
- **Sortino Ratio** (YTD): **0.73**

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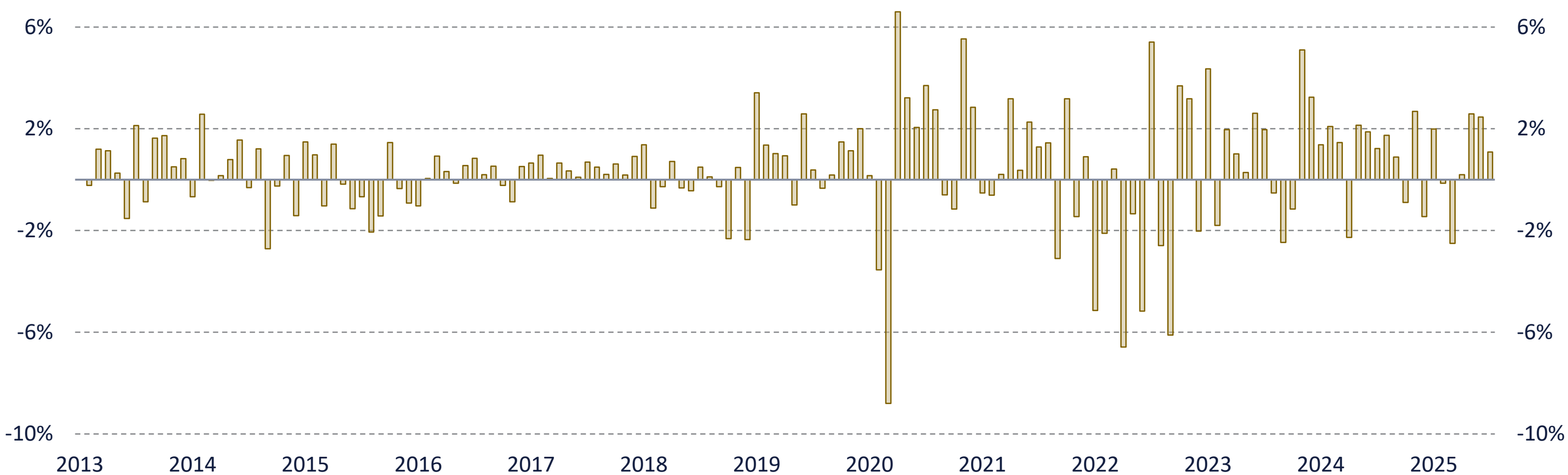
# Boreal Balanced Portfolio – Historical performance (1)




- **Total Return** (1 year): **9.29%**
- **Total Return** (3 years): **28.85%**
- **Total Return** (Since Jan 13): **74.37%**

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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% | 6.82% |
| 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% | 9.29% |
| 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 | 0.78 |

Annualized Return: 4.50%
Annualized Std. Dev: 7.26%

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