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Investment Policy

September 2025

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Our market view in a nutshell – September 2025

- **Looking Through Dirty Glasses.** The Fed's dual mandate forces it to balance price stability and employment — often in tension, as an economy near full employment can overheat and push inflation higher. Historically, the Fed has played the role of the responsible guardian, removing the punchbowl just as the party begins. Since the U.S. elections, however, the Fed had resisted cutting rates further, despite inflation falling from 9% to below 3% in just two years and consumption weakening. Policymakers chose to wait and see how potentially inflationary economic policies from the new administration would play out. Their prudence rested on the idea of a stable but gently cooling labor market. What we now know is that this view was based on flawed data.
- **Statistical Revisions Remove the Veil**. During the summer, just before the traditional Jackson Hole retreat of central bankers, questions emerged about the accuracy of employment data. It became evident that almost every month in 2025 had been overstated. The Fed's stance shifted, signaling a green light to resume rate cuts after a seven-month pause. Any lingering doubts vanished in September, when the annual preliminary "benchmark revision" revealed that only about half of the reported job gains from March 2024 to March 2025 had actually materialized. This exposed a meaningful weakness in the economy and tilted the balance decisively toward urgent rate cuts.
- **The Nice Face of Positive Correlation**. In a reversal of 2022, when stocks and bonds sold off in tandem, both asset classes are now advancing with strong positive momentum. Bonds are rallying across the short and intermediate parts of the curve, where markets have priced in five to six rate cuts. Long-term yields, however, remain elevated, reflecting ongoing concerns about U.S. fiscal sustainability. As a result, opportunities are shifting away from the short end — where little value remains beyond carry — toward medium and longer maturities, offering tactical entry points in an asset class that is typically rather dull.
- **Equity Rally Beyond Lower Rates**. The current rally is not solely about interest rates and multiples. Lower rates now serve to extend the business cycle, while earnings growth has been strong enough to justify higher prices. In fact, earnings growth over the past few years has kept pace with the rise in equity markets, meaning valuations have improved even as indices hit all-time highs. Importantly, we do not see excessive euphoria priced into the market — aside from stocks directly exposed to the build-out of AI infrastructure. From a broader perspective, one could argue, through the lens of Real Options Theory, that many companies, not just in technology, deserve to trade with an embedded option premium, reflecting the potential for AI-driven earnings opportunities that are only beginning to emerge.

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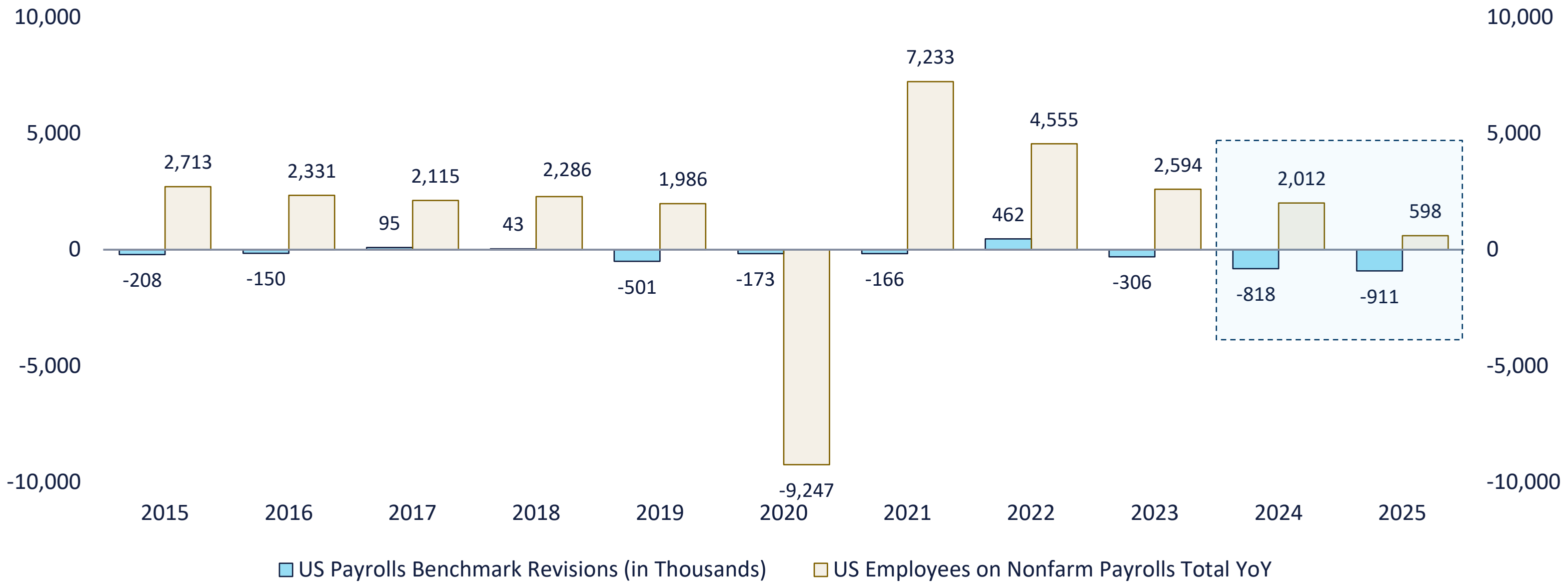
Asset Class		View	Rationale
Fixed Income	US Investment Grade	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. We favor short to medium maturities
Fixed Income	US Credit	+	Interest rate cuts, controlled inflation, and resilient consumption have reduced the 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	+	Supported by earnings growth that justifies current valuations. Beyond AI-infrastructure names, we see limited signs of euphoria, and believe a broad part of the market merits an “option premium” reflecting AI-driven earnings opportunities ahead.
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 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

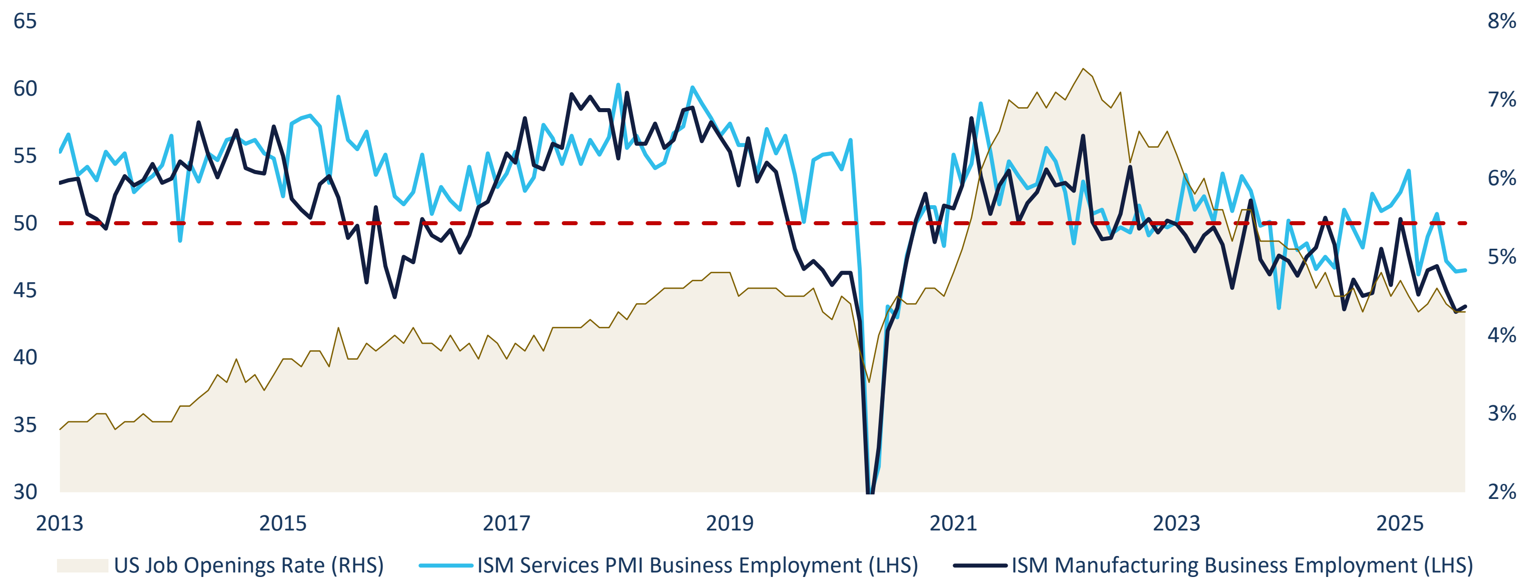
Weakness Exposed



- Annual benchmark **revisions erased nearly half of reported job gains for 2024–2025 (~900k jobs)**, abruptly shifting the narrative from labor market resilience to fragility and **exposing a weaker foundation for growth** than previously believed.
- This came **on top of recent downward revisions in the monthly data**, undermining confidence in employment — a key pillar, together with consumption, that has so far kept the economy from slipping into recession.

Source: Bloomberg

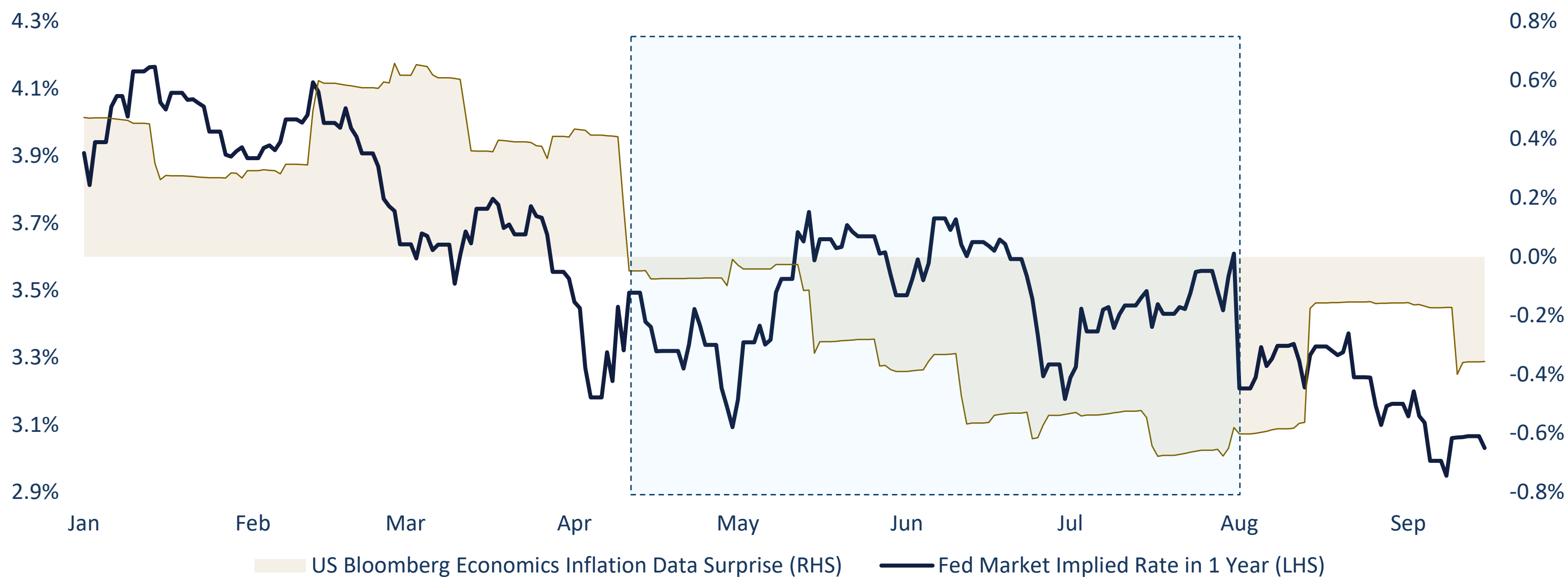
Not Just the Past, But the Future



- **A range of indicators point to softer hiring** as the Job Openings Rate (**JOLTS**) continues to decline, the **employment components of ISM** Services and Manufacturing trend lower, and the **ADP** private payrolls report confirms a slowdown in job creation.
- **Broader activity remains subdued**, with the ISM Manufacturing Index in contraction for a protracted period, underscoring persistent industrial weakness even as services provide a cushion.

Source: Bloomberg

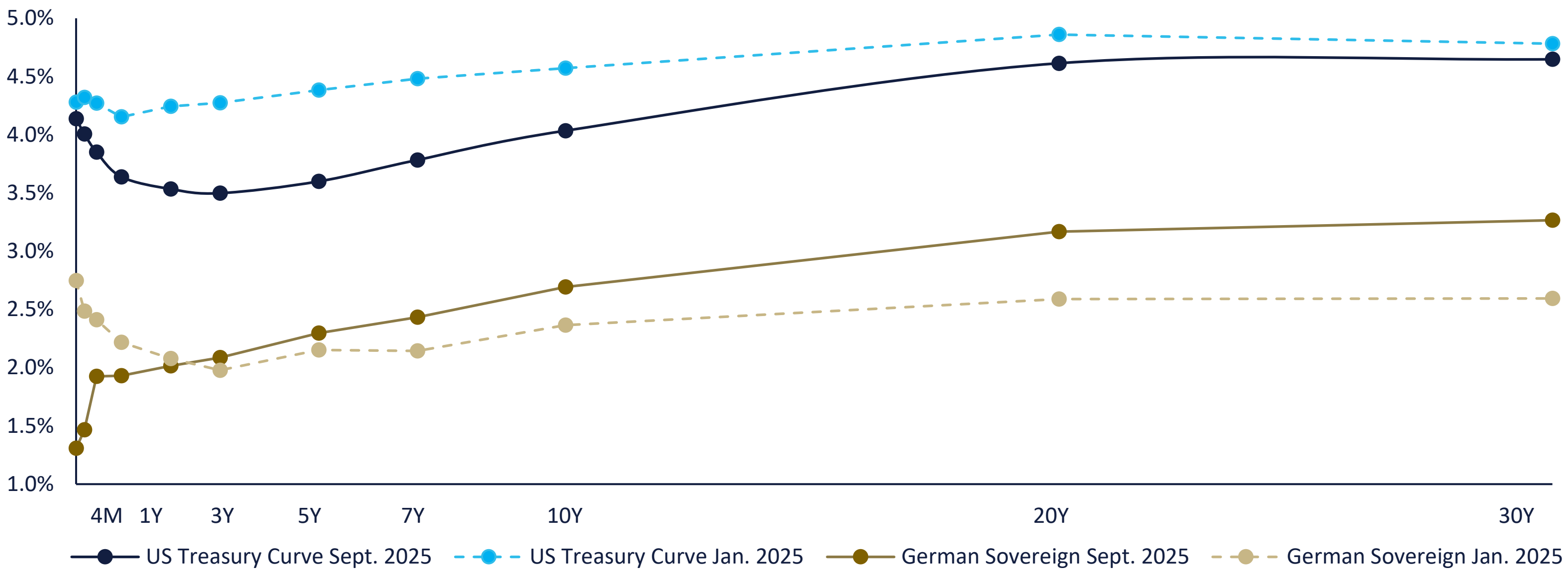
A Potentially Costly Delay



- **The Fed has kept rates on hold for months despite steadily decelerating inflation**. Recent data confirm that price pressures are broadly under control and moving within the 2–3% range, reinforcing the perception that inflation is no longer the dominant risk.
- Markets are now pricing **five to six rate cuts** over the coming year, reflecting the **need for the Fed to regain lost time after its pause**. There is still no sense of urgency to deliver “jumbo cuts,” which would likely be poorly received by markets, but any further signs of economic weakness could force a faster pace of easing.

Source: Bloomberg

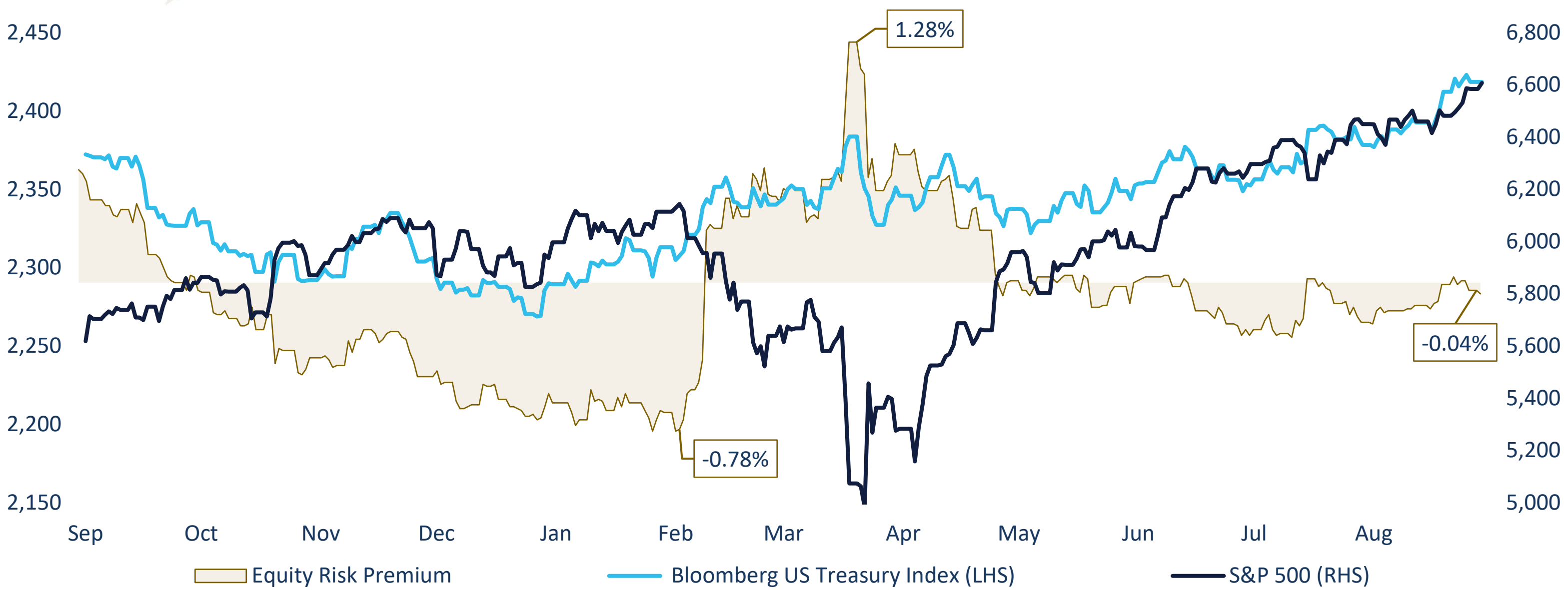
Extending the Horizon



- **The rally at the short end has largely played out**, as markets have already priced in five to six cuts over the next year. With front-end yields anchored lower, there is now limited value beyond carry, and the asymmetry of risks favors looking further out the curve.
- **Opportunities are shifting to the medium and long tenors**, where yields remain elevated and offer attractive tactical entry points in anticipation of a faster easing cycle or renewed demand for duration.

Source: Bloomberg

Good Correlation



- **Unlike in 2022, when stocks and bonds sold off in tandem, both markets are now advancing together**. Lower rates are extending the business cycle, while strong **earnings growth has underpinned equity prices**, preventing valuations from deteriorating despite indices at all-time highs.
- The equity **risk premium highlights that the rally has not been driven by multiple expansion**, but by earnings growth. This reinforces the view that equities are on firmer ground, with performance supported by fundamentals rather than stretched valuations.

Source: Bloomberg

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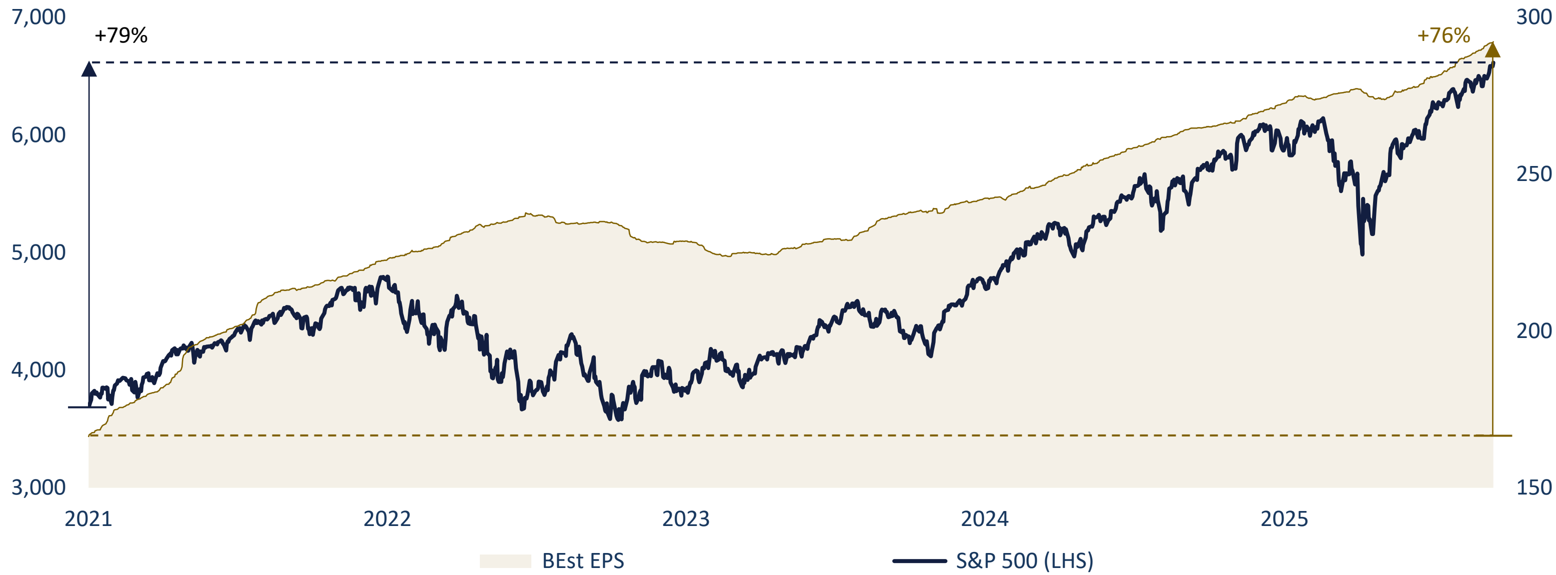
Going Up for the Right Reasons



- Corporate earnings have kept pace with stock prices, showing that **the equity rally is not driven by multiple expansion**. The correction of 2022 was triggered by rising interest rates rather than a significant decline in earnings, which remained broadly stable throughout that period.
- **Earnings have now grown for eight consecutive quarters, with the last three posting double-digit gains**. Since 2021, EPS estimates are up more than 70%, broadly matching the increase in the S&P 500 and reinforcing that valuations remain reasonably justified by growth even at record index levels.

Source: Bloomberg

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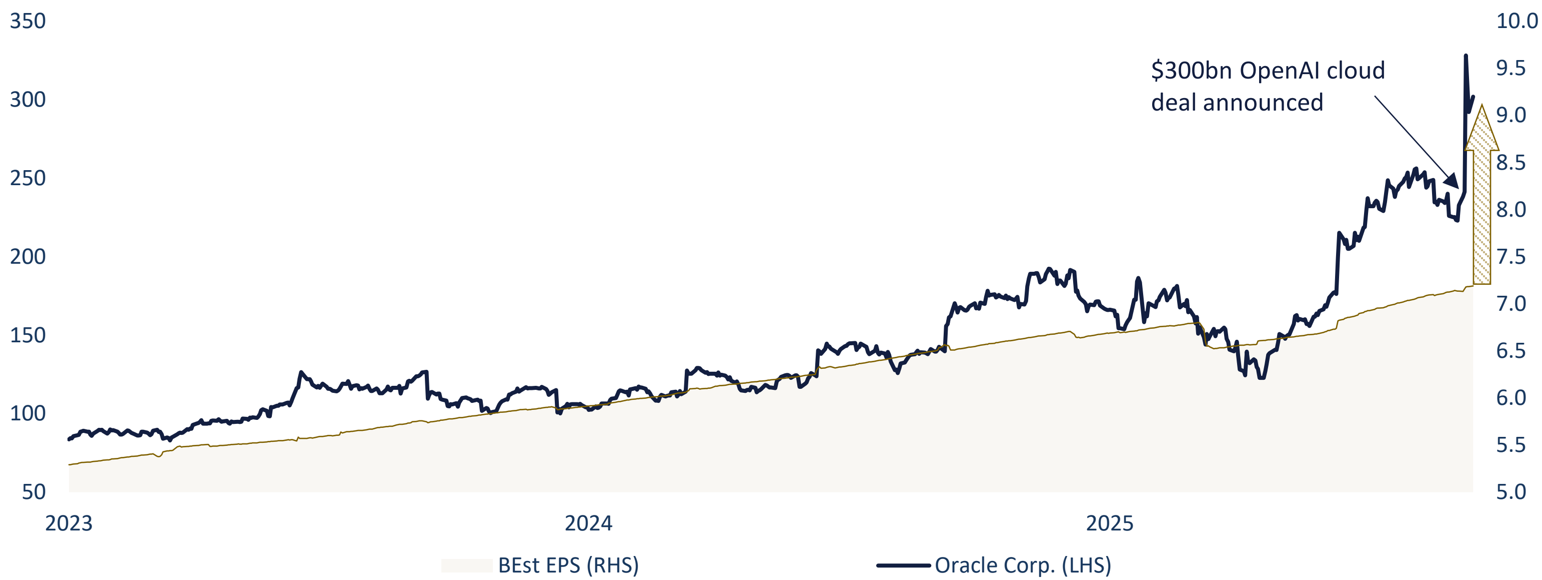
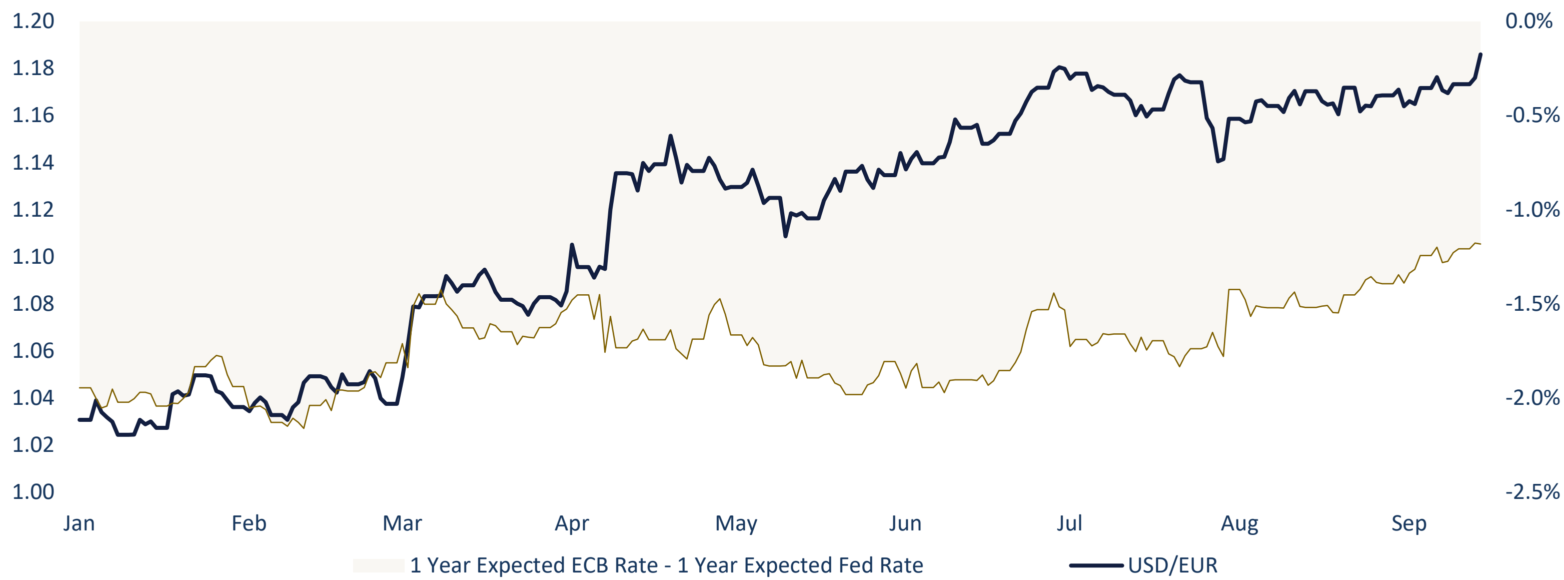
With AI Every Stock Is Also an Option



- Oracle's stock surge after its AI contracts illustrates how **markets can suddenly reprice earnings potential** that analysts had not anticipated. A stock can be seen not only as the sum of **discounted cash flows**, but also as an **option on future opportunities** — a perspective aligned with Real Options Theory.
- Beyond the early infrastructure winners, AI is likely to boost earnings across many sectors. That **"option premium" still appears modestly priced**, perhaps reflecting **investor caution after the dot-com era**.

Source: Bloomberg

Weak Dollar Despite a Stronger Economy?



- The **dollar's recent depreciation looks inconsistent with U.S. economic strength**. Even after discounting several Fed cuts, the one-year expected **rate differential still favors the dollar**, yet the currency has weakened materially.
- **Markets may be too complacent on Europe's outlook**. With inflation already near 2% and growth weakening, the risk of deflation cannot be ruled out, leaving room for the ECB to cut rates more aggressively than currently priced. The **growth differential also favors the U.S.**, with the Fed projecting GDP growth a little above 2% compared with the ECB's forecast of barely 1% for the eurozone.

Source: Bloomberg

Investment scenarios

	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	30% (-5%)	55% (+5%)	15%

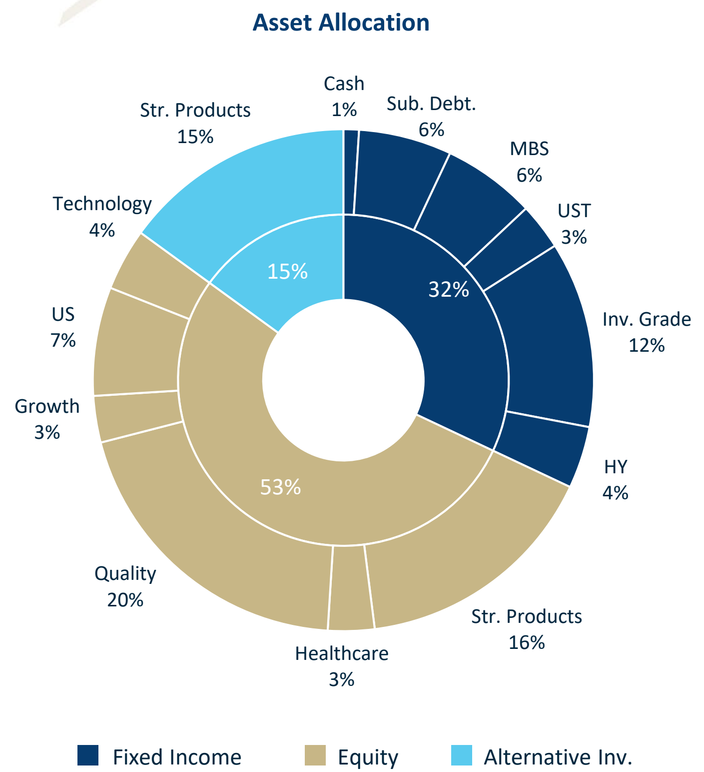
Short-term catalyzers

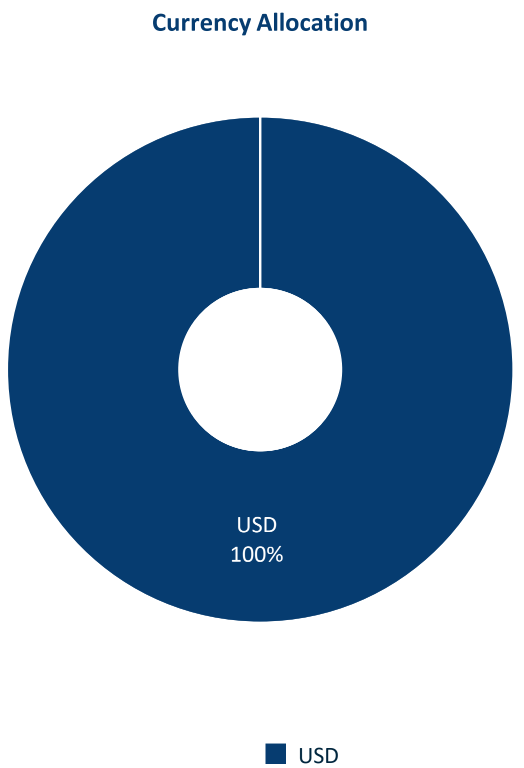
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

Other risks

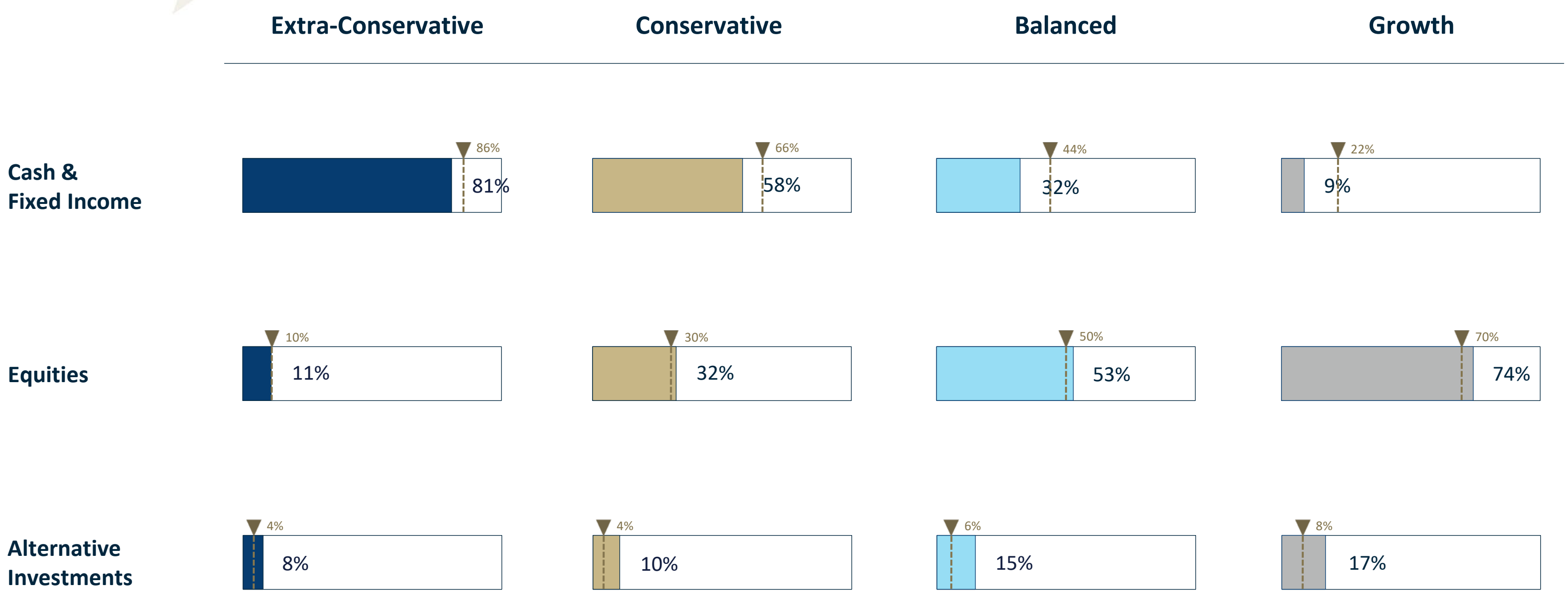
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

Boreal Balanced Portfolio USD



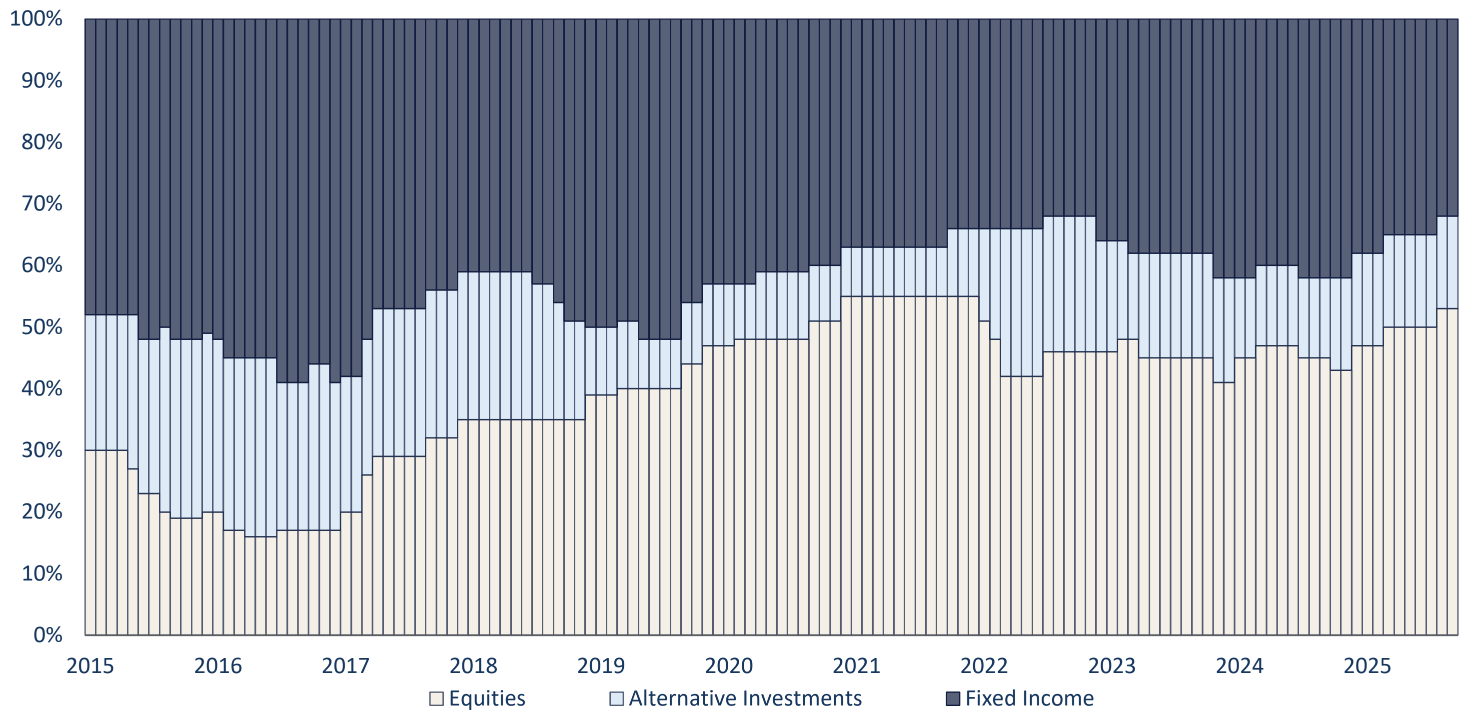


Boreal Investment Profiles



▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution



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