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Investment Policy

October 2025

Our market view in a nutshell – October 2025

- **Narrative Substitutes for Data.** Successfully navigating markets requires separating signal from noise — especially now. With the release of key U.S. macro data delayed by the government shutdown, investors are flying partially blind. The two statistics that matter most for assessing the economy's health — *inflation* and *employment* — are precisely the ones missing. Their combination defines the macro matrix that drives both growth expectations and the Federal Reserve's reaction function. In their absence, speculation has filled the gap. Markets, like nature, *abhor the vacuum*. The lack of reliable data has been replaced by narratives — some opportunistic, others deliberately confusing — amplified through a constant media flow. The recent flare-up in U.S.–China trade tensions has added another layer of uncertainty. Amid the noise, a few real indicators stand out: "substitute" employment data point to continued softness in the labor market, while the recent defaults of *Tricolor* and *First Brands* — whose significance remains uncertain — suggest a mild deterioration in private credit conditions.
- **Symbolic Haven: Gold, Silver, and the Dollar.** The rally in gold and silver — and the renewed "money debasement" narrative — illustrate how quickly sentiment can shift when facts are missing. This move is not driven by geopolitics; on the contrary, risks in the Middle East and Ukraine are subsiding. Some central banks have been adding to gold reserves, but largely as a hedge against potential financial sanctions rather than concerns about the U.S. dollar's soundness. Rather, this episode reflects how investors, deprived of hard data, project anxiety onto *symbolic assets*. In a world of instant information, stories often move faster than evidence — and markets follow the story until the facts return.
- **The AI Revolution and the Next Productivity Cycle.** While emerging narratives fixate on fear, structural progress continues at full speed. Two years after the release of ChatGPT, AI is transforming industries, reviving capital expenditures, and laying the foundation for a new productivity cycle. Much has been said about "bubbles" and "fiscal deficits", but less about how technology waves — like the Internet and personal computers in the 1990s — reshaped the economy and helped deliver the last U.S. fiscal surplus. Yes, AI carries risks — from overinvestment to social dislocation — but in the short term it remains a *macro and market driver*, reinforcing growth, innovation, and profitability.
- **No negativity in stock markets.** For investors, AI remains the dominant force, barring unexpected accidents. In the medium term, overinvestment or capacity gluts could weigh on returns, and the long-run social implications of automation will be profound. But for now, the theme continues to support sentiment and flows. Valuations remain bifurcated: while *hyperscalers* trade at demanding multiples, the *median* company is priced without an *optionality premium*, providing a natural valuation buffer. This complicates diversification — concentration has become the price of participation in structural innovation — and favors a barbell strategy, balancing AI leaders on one side with reasonably priced quality-growth exposure on the other.

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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

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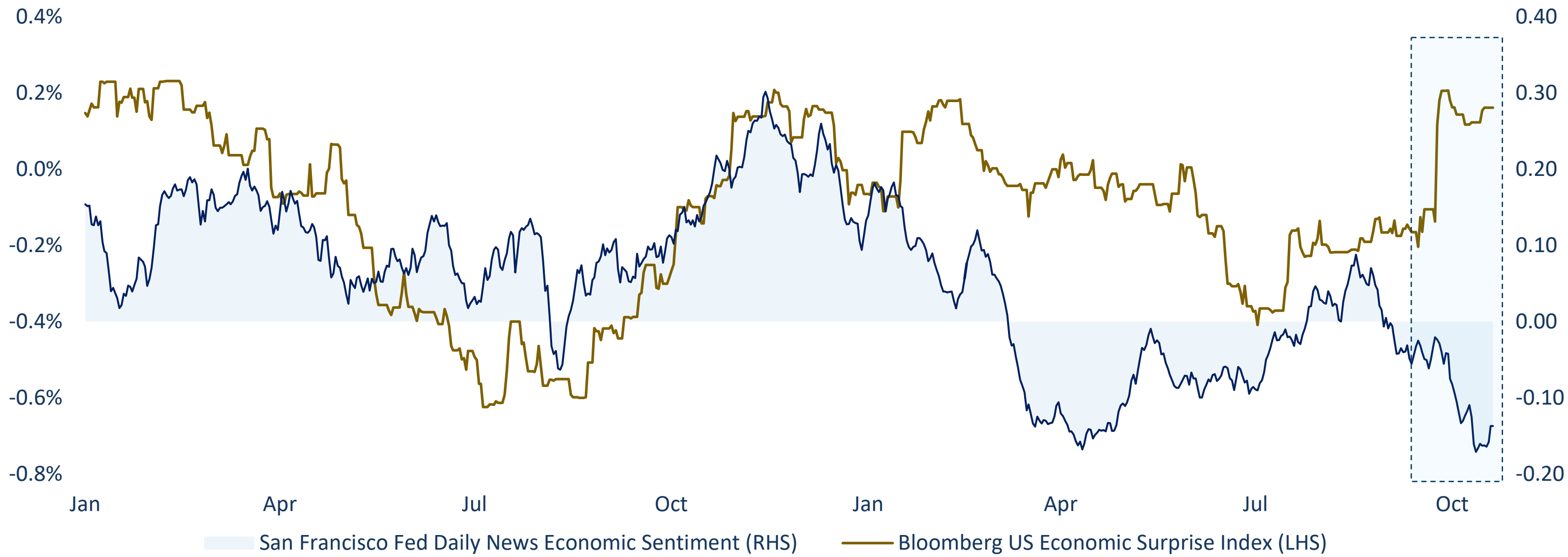
Narrative Substitutes for Data

When facts are missing perception becomes reality



- The suspension of **key U.S. statistics** during the **government shutdown** left investors without reliable macro guidance. **Inflation** and **employment data** matter more than ever, as the **Fed stands at a pivotal juncture** between patience and policy action.
- In this vacuum, **sentiment replaced evidence**. Speculative narratives proliferated — especially those built on **pessimism**, which now **trade at a premium**. The shutdown has **revived the "debasement" theme**, not because of its economic impact, but due to the **symbolic damage inflicted on U.S. financial dominance**.

Source: Bloomberg

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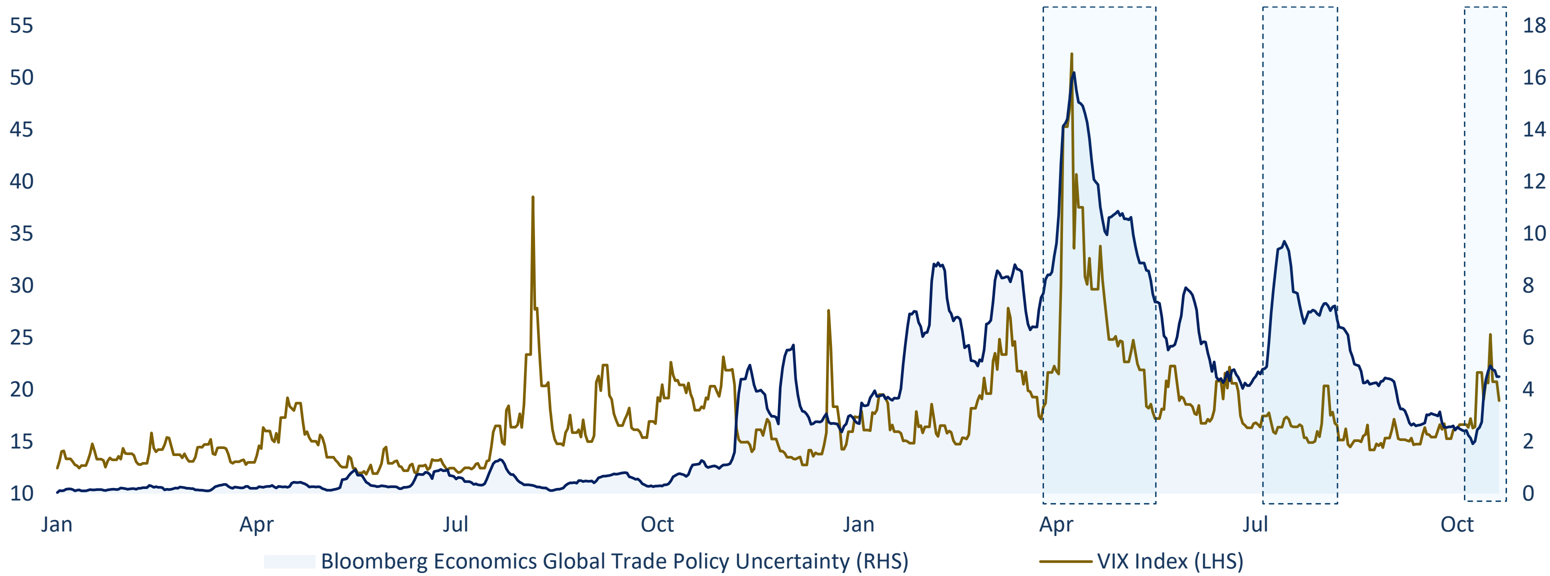
Aftershocks from “Liberation Day”

Residual tremors — not a new quake.

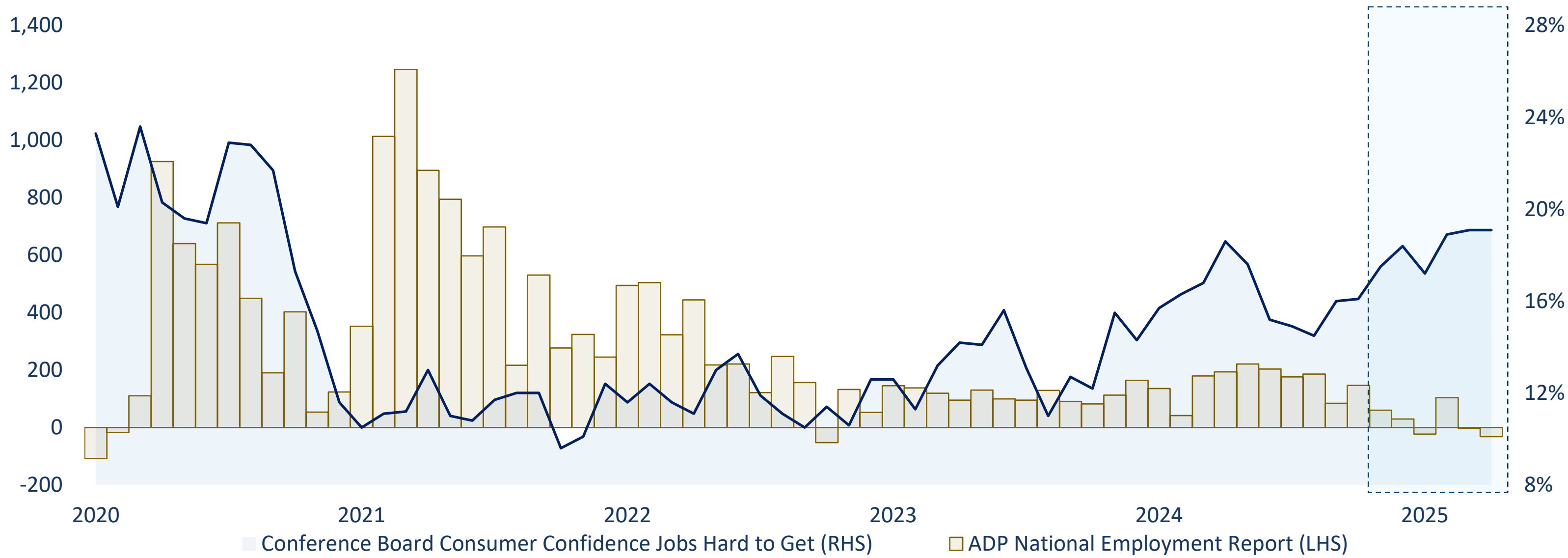


- The recent **flare-up in U.S.–China trade tensions** has generated more headlines than market impact. **Price action across equities, credit, and FX has been short-lived**, underscoring that **trade is now a second-order driver** rather than a primary risk factor. The U.S. has already renegotiated most key agreements and is no longer pressed by time; what remains is the routine management of bilateral frictions.
- On both sides, the **policy choreography is increasingly evident**. Measures and countermeasures appear **timed ahead of the planned presidential summit**, serving domestic audiences more than economic goals. **A renewed trade war looks unlikely at this point**.

Source: Bloomberg

“Substitute” Labor Data Point to Weakness

The labor market keeps cooling, edging closer to contraction



- The **ADP Employment Report**, while a **useful proxy** for official payrolls, captures **only the private** sector and **typically underrepresents downturns**. Together with the Conference Board’s **“Jobs Hard to Get” indicator**, it provides a narrow but **consistent signal of a cooling labor market**.
- Both metrics now point toward **softening employment momentum**, suggesting that official payrolls **could soon turn negative** for the second time since June. The lack of public-sector coverage likely masks some of the weakness, reinforcing the picture of a gradual but persistent slowdown.

Source: Bloomberg

Recent Credit Events Look Like Isolated Incidents

Treasuries reclaim their hedge role — even as the "debasement" narrative lingers

- The recent **corporate defaults and credit losses in regional banks** appear **idiosyncratic rather than systemic**. The **uptick in high-yield spreads** has been modest and comes from **historically tight levels**, suggesting limited contagion and contained risk transmission across credit markets.
- In contrast, **U.S. Treasuries behaved canonically in risk-off mode**, with the **10-year yield falling back below the critical 4% threshold**. After a long period of distorted correlations, **bonds are once again acting as a hedge**.

Source: Bloomberg

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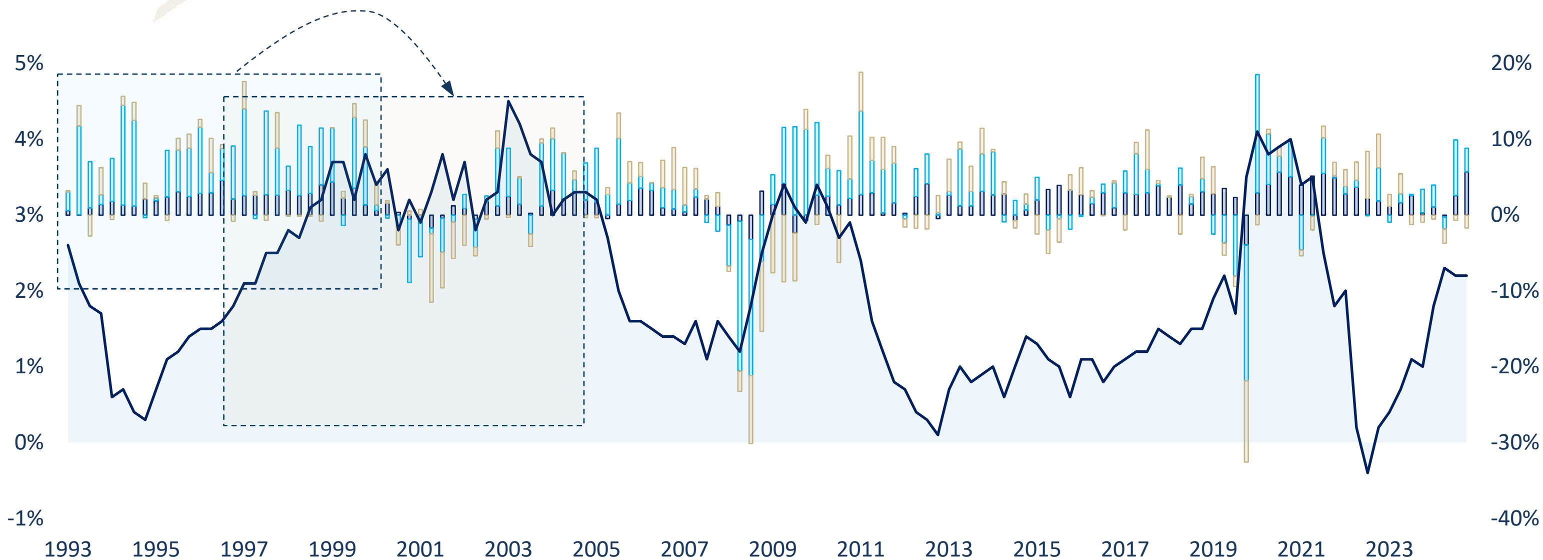
A New Productivity Miracle?

AI-driven investment echoes the 1990s tech revival — but with broader reach



- **AI capital expenditure now equals 1.5–2 % of U.S. GDP**, potentially adding **0.75–1 ppt to real GDP growth in 2026**. The investment surge extends beyond hyperscalers into infrastructure, software, and industrial automation — a scale unseen since the early internet era.
- As in the **1990s productivity boom**, innovation first raises capital intensity, then output per worker. **AI's integration into workflows could amplify total-factor productivity** over time, suggesting this cycle's gains may prove **broader and more durable** than those of the **PC and internet** revolutions.

Source: Bloomberg

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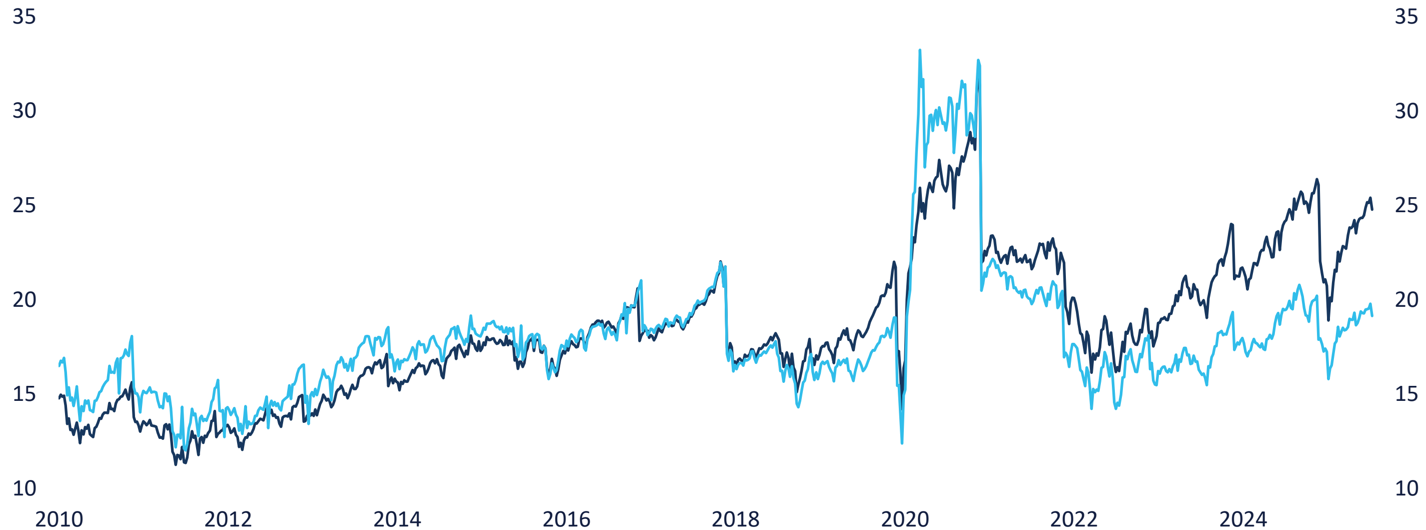
Not (Yet) in a Bubble

Valuations bifurcate — little AI-driven optionality beyond the hyperscalers.



- **AI exuberance remains highly concentrated**, confined to microchip producers and hyperscalers. The **S&P 500 Equal-Weighted Index** still trades **near its long-term average multiple (~20×)**, showing that the broader market has **not priced in the full scale of the AI transformation**.
- Optionality is unevenly distributed — concentrated in firms that already lead the technological rollout, while **most companies still trade as if AI will not touch them**. As in past innovation waves, the challenge for investors is to **capture the upside asymmetry** without overpaying for speculative excess.

Source: Bloomberg

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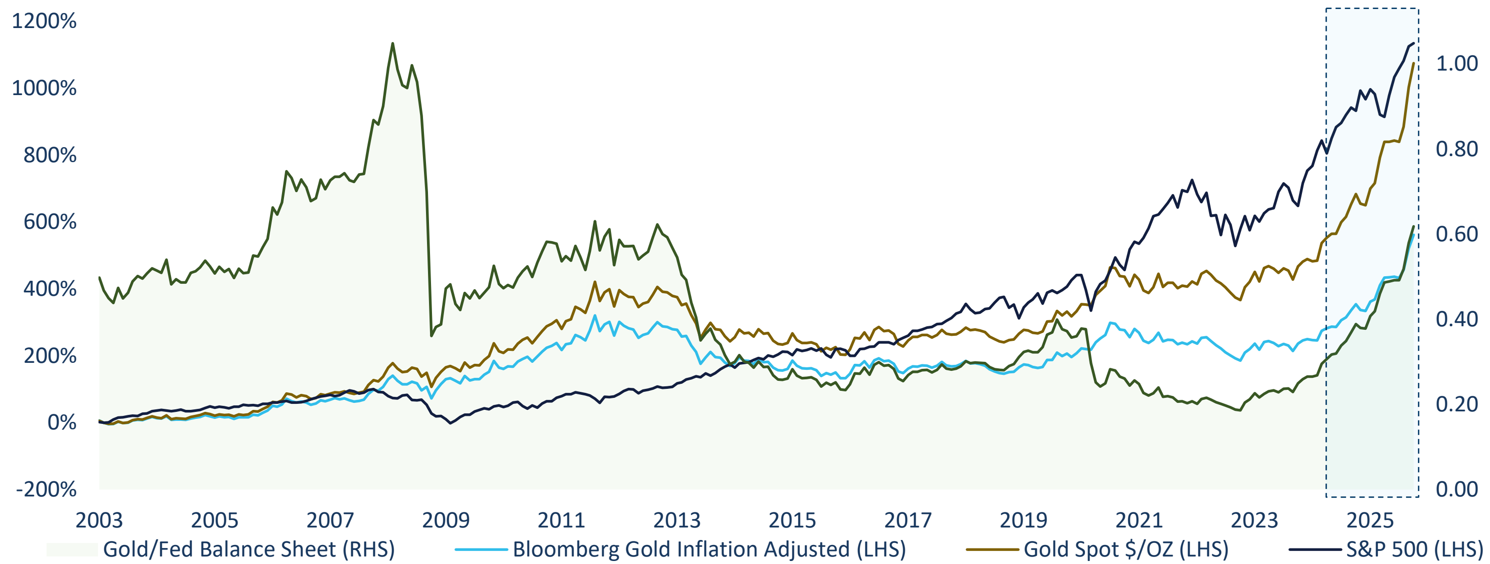
The Purest Form of "Passive Investing"

Zero yield, zero output — and record enthusiasm



- **Gold has quietly become one of the largest bubbles of our time**, fueled by the **financialization of the asset class** (via ETFs) and **persistent debasement narratives — mirroring crypto's ascent**. As a "store of value," gold competes with abundant real assets, yet **offers neither yield nor utility**.
- It makes **little economic sense that an unproductive metal has outperformed prime New York real estate** by a factor of seven since 2003, while merely **matching the S&P 500's performance** over the same period. *Interestingly*, **since 2017, gold has gained +260% versus +70% for the Rolex Index** — a scarcer, crafted, and economically active asset.

Source: Bloomberg, WatchCharts

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%	55%	15%

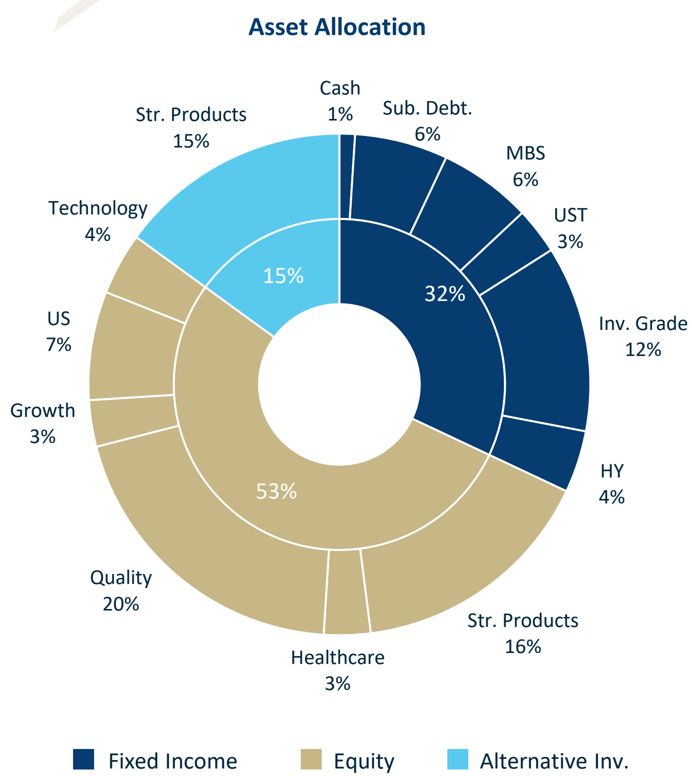
Short-term catalyzers

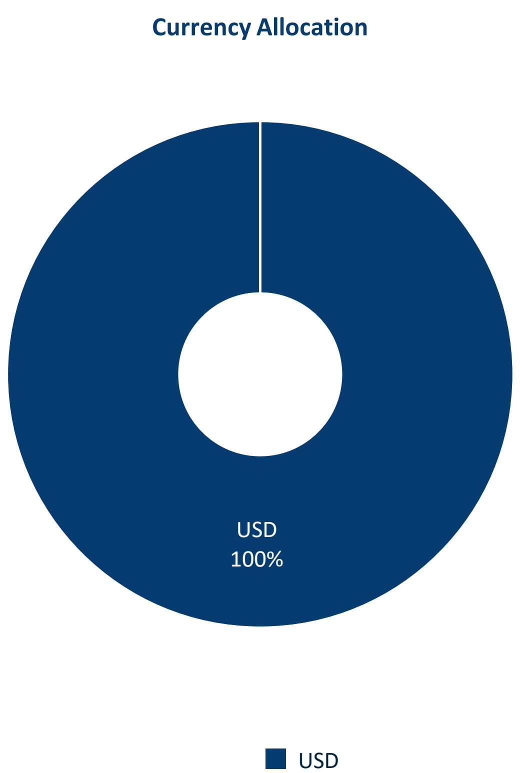
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

Other risks

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

Boreal Balanced Portfolio USD





Boreal Investment Profiles

	Extra-Conservative	Conservative	Balanced	Growth
Cash & Fixed Income	81% ▼86%	58% ▼66%	32% ▼44%	9% ▼22%
Equities	11% ▼10%	32% ▼30%	53% ▼50%	74% ▼70%
Alternative Investments	8% ▼4%	10% ▼4%	15% ▼6%	17% ▼8%

▼ Strategic Asset Allocation

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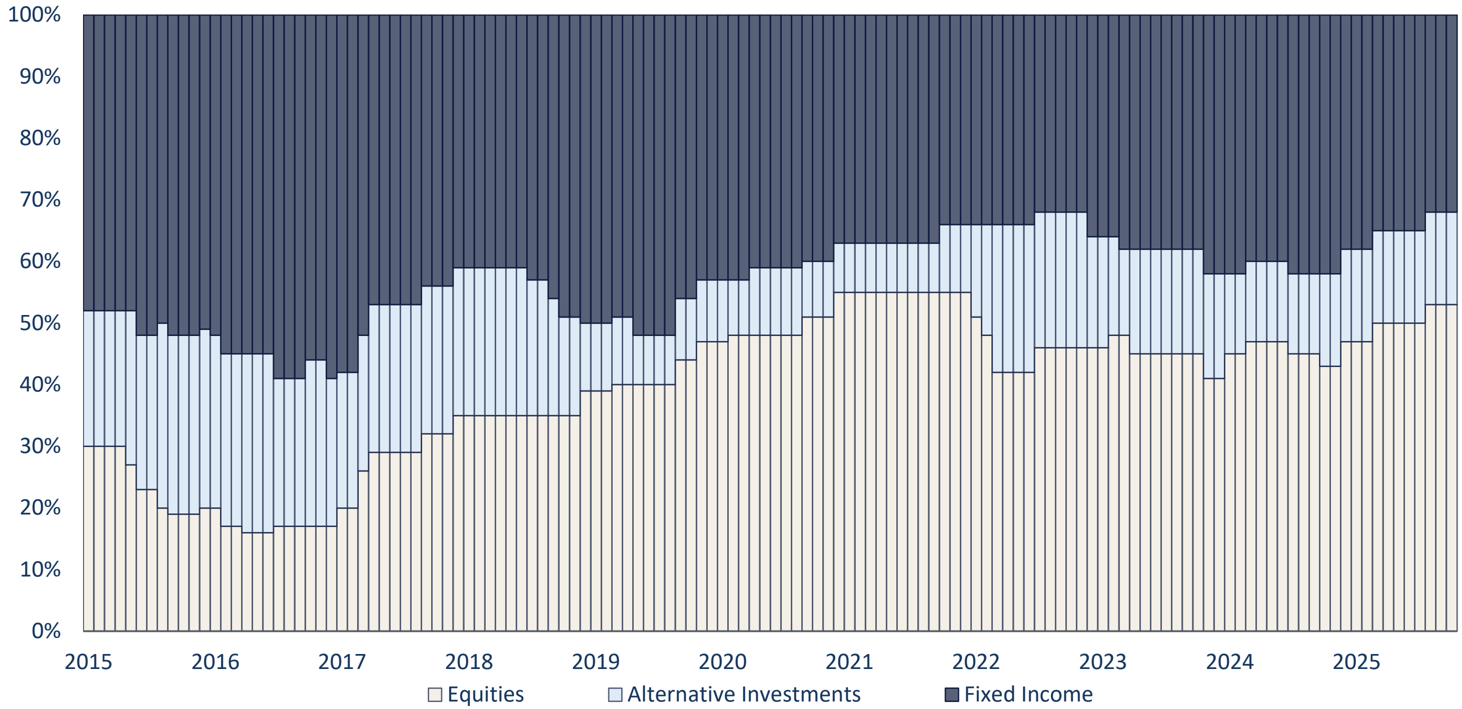
Boreal Balanced Portfolio – Asset Allocation evolution



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