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Investment Policy

December 2025

Our market view in a nutshell – December 2025

- **Year-end: policy scars and pivots.** As we approach year-end, markets are closing a period defined more by adjustment than disruption. The tariff episode in April left a visible—but ultimately contained—scar on sentiment, reinforcing uncertainty around the policy direction under the new administration. More consequential was the Fed's summer shift, which helped stabilize financial conditions and reduce tail risks, as inflation continued to ease with little evidence of sustained tariff-driven price pressure. Looking ahead, the planned change in Fed leadership in 2026 is widely seen as tilting the institution toward a more accommodative bias, reinforcing expectations that the tightening phase is firmly behind us.
- **An economy with tailwinds, despite contradictory signals.** The US economy continues to benefit from a rare alignment of supportive forces: easier monetary conditions, ongoing fiscal support, and an increasingly tangible AI-driven investment cycle. At the same time, economic signals remain mixed. Survey data, particularly consumer confidence, continues to soften, while hard data—especially consumption—remains resilient. Business surveys are improving at the margin across both manufacturing and services. Employment is the notable exception, cooling more clearly and now flirting with contraction. If this adjustment remains orderly, it may be the final step needed to bring inflation sustainably closer to target, allowing a more balanced macro backdrop to re-emerge.
- **Global momentum: divergence without recession.** At the global level, growth momentum is edging higher in the US and Europe, with Japan also holding up better than expected. China, by contrast, continues to disappoint, weighed down by a prolonged real estate crisis and persistently weak consumption. Importantly, this divergence has not translated into a meaningful increase in recession risk across developed markets. The global cycle remains uneven, but far from fragile.
- **Markets and asymmetry: valuations vs. risk.** Equity markets face a distinctly asymmetric risk profile. On the downside, risks look largely "business as usual": a potential cyclical slowdown rather than the unwinding of a speculative bubble. By contrast, the upside tied to AI-driven productivity and earnings gains is unusually large—arguably far larger than in prior cycles. While US equities may appear expensive in absolute terms, valuations have compressed globally, and growth prospects remain more compelling in the US than elsewhere. In fixed income, the message is more straightforward: with credit spreads tight and the yield curve steepening, the risk-reward increasingly favors extending duration over adding credit risk.
- **Dollar dynamics and easing Treasury concerns.** Against a backdrop of resilient growth, gradually easing inflation, and current account and fiscal deficits starting to narrow, we expect concerns around the US Treasury market—issuance and foreign demand in particular—to recede. As inflation trends and monetary policy regimes converge across major economies, relative growth differentials regain importance, arguing for a firmer US dollar into year-end and early 2026.

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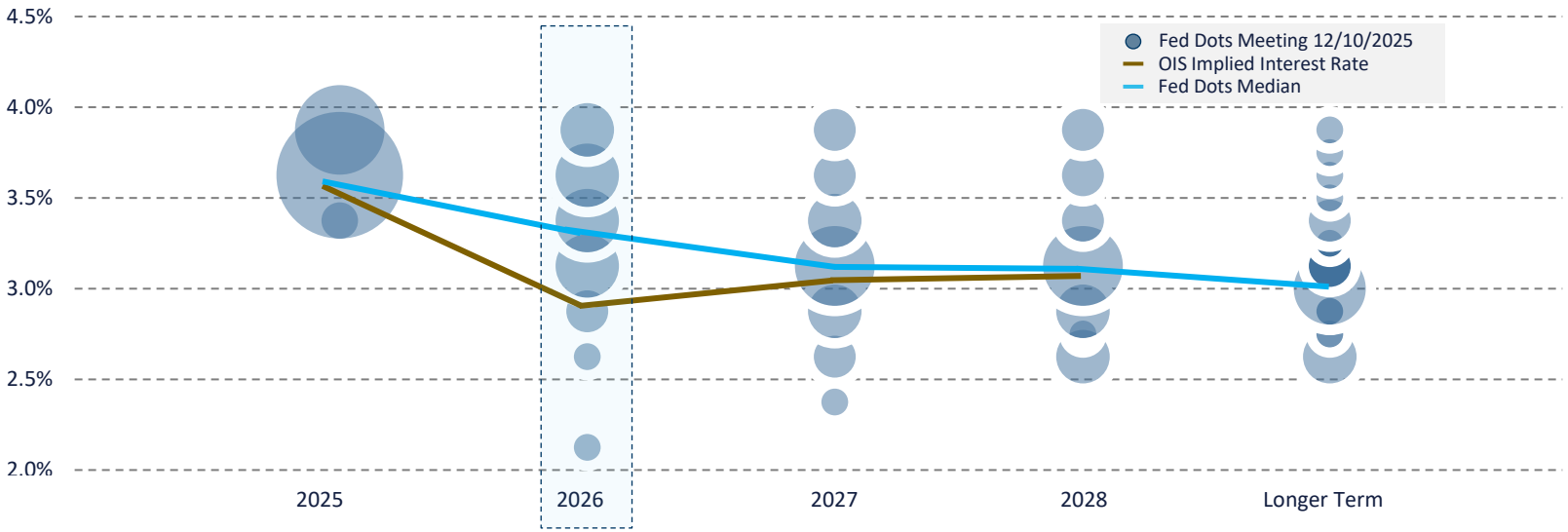
Asset Class		View	Rationale
Fixed Income	US Investment Grade	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. We favor short to medium maturities
	US Credit	+	Interest rate cuts, controlled inflation, and resilient consumption have reduced the likelihood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

Fed vs. Markets : A Persistent Wedge

Markets anticipate a faster easing cycle than signaled by the FOMC for 2026

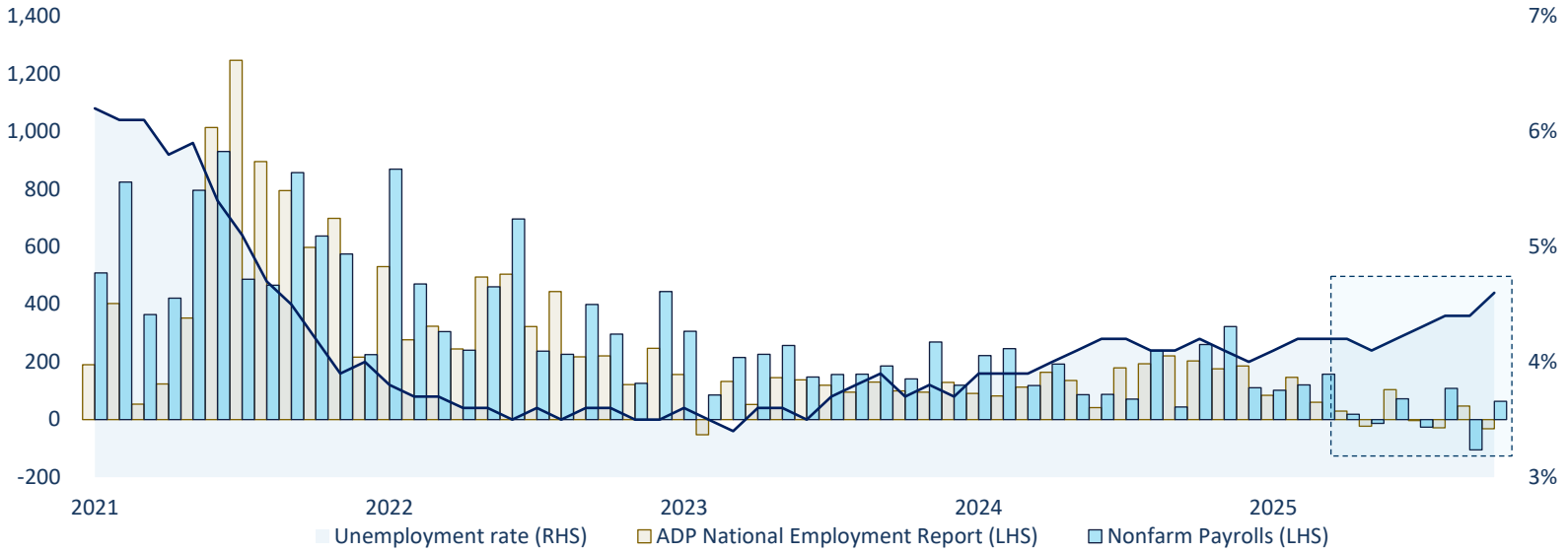


- **Markets price roughly two additional 25bp cuts in 2026** versus the Fed's median dot, reflecting confidence that **disinflation will continue** and that the labor market may need a **more accommodative stance**. The gap reflects a late-cycle pattern: markets look ahead, while the Fed remains anchored to **realized data and institutional caution**.
- **Leadership transition and strategy both matter.** With Chair Powell set to be **replaced in May 2026**, investors increasingly expect a **more dovish bias**. More broadly, the **strategic calculus favors easing**: it is typically easier—and less costly—to **cut rates than to raise them again**.

Source: Bloomberg

Labor Market: Weakening Momentum Persists

Rising slack supports further disinflation



- **Recent payroll data confirms a clear cooling trend**. Job growth contracted in October and showed only a modest rebound in November, pointing to weakening labor demand and slower employment momentum.
- **Unemployment is rising, but from low levels**. While the pace of increase bears watching—as rapid rises have historically preceded recessions—current levels remain low by historical standards. An orderly cooling of the labor market may be a **necessary step to bring inflation sustainably back to target**, rather than a signal of imminent stress.

Source: Bloomberg

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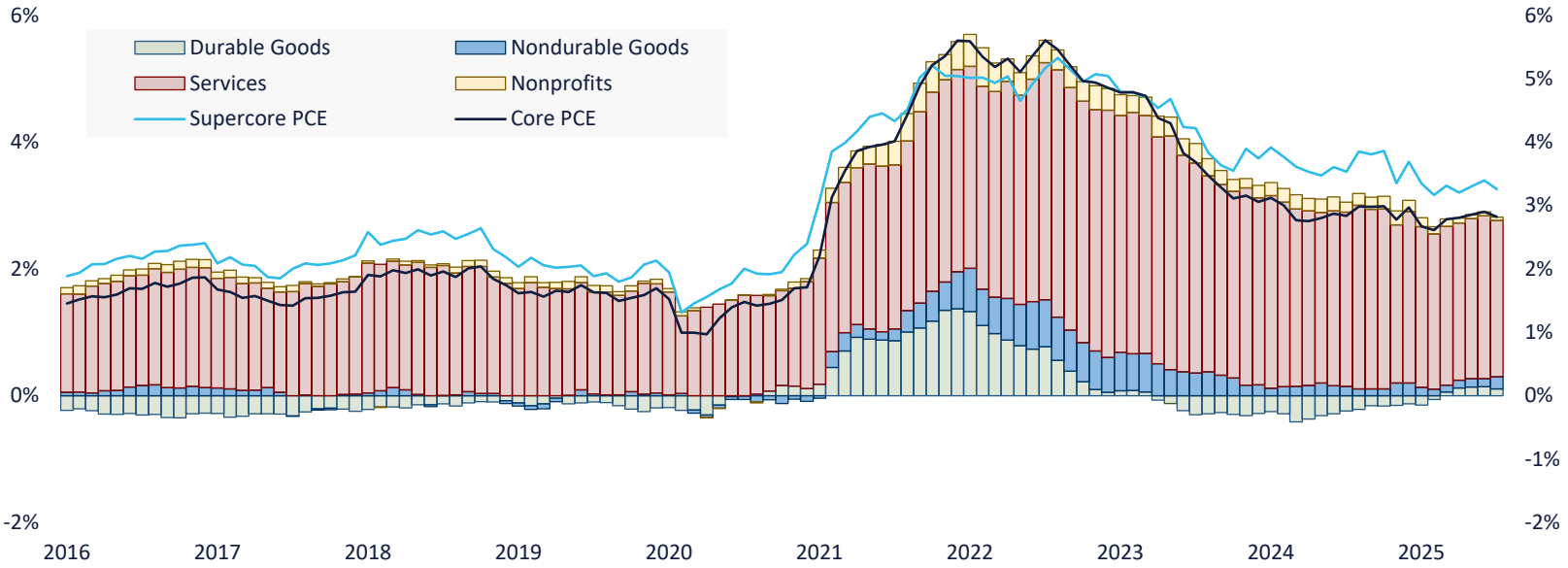
A Slow, Steady Descent

Services cool gradually as goods prices turn mildly positive

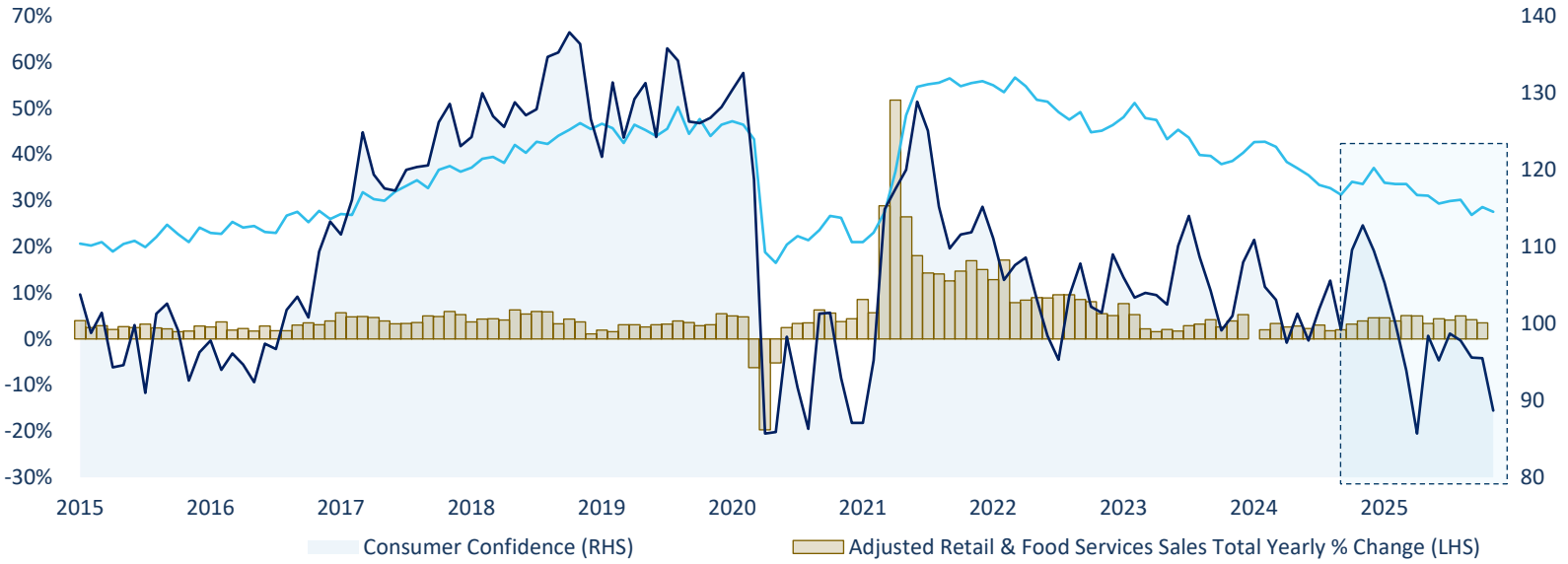


- **Core PCE confirms a slow but persistent disinflation trend**, driven primarily by services, where price pressures continue to ease at a very gradual pace. Progress is steady rather than spectacular, consistent with a soft-landing environment rather than a sharp slowdown.
- **Goods inflation has turned positive again**, a departure from the pre-pandemic norm of structurally negative goods prices. While still modest, this shift may reflect **early tariff effects**, suggesting that goods prices could reintroduce mild friction into the disinflation process without derailing it.

Source: Bloomberg

Soft vs. Hard Data: A Persistent Disconnect

Actions diverge from attitudes

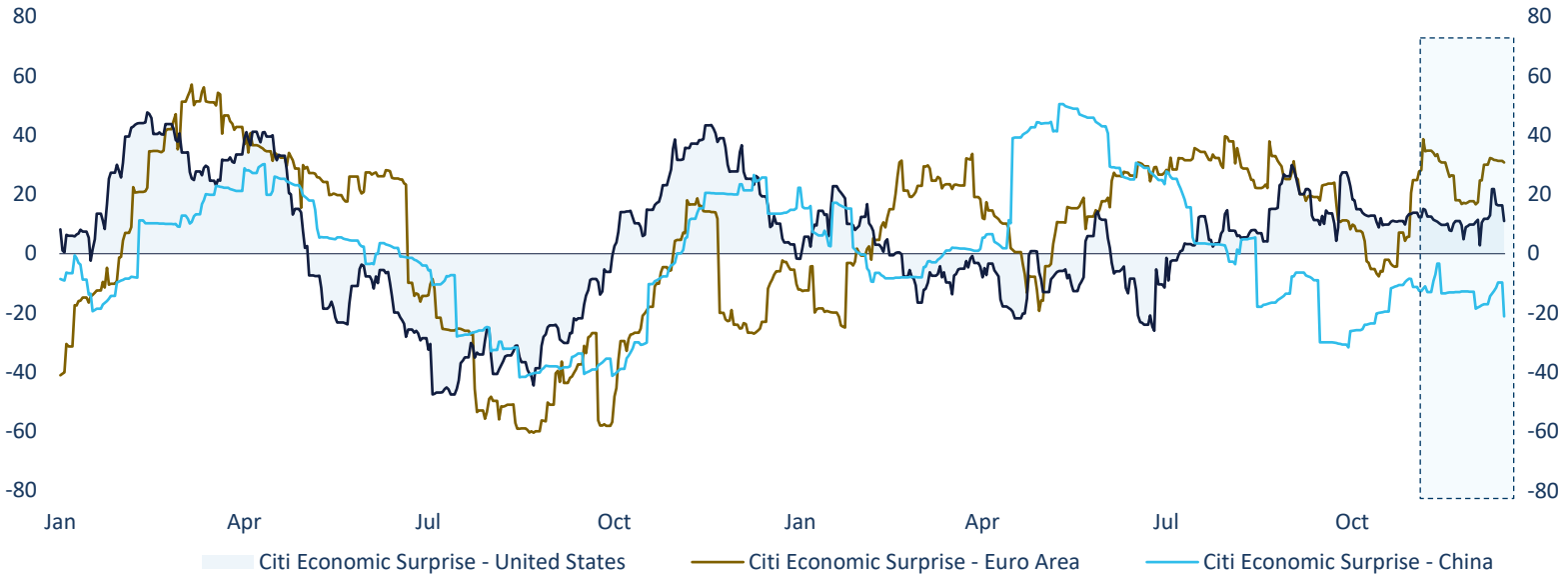


- **Consumer sentiment continues to deteriorate**, with surveys showing a sharp decline in the perception that jobs are abundant—now **well below pre-pandemic levels**. Confidence indicators increasingly reflect labor market anxiety rather than actual income or spending constraints.
- **Consumer behavior tells a different story**. Despite weaker sentiment, **consumption remains broadly stable**, suggesting households are still spending based on realized income and balance sheets rather than surveys. For now, actions continue to diverge from attitudes.

Source: Bloomberg

Global Momentum: Divergence Without Recession

US and Europe surprise to the upside as China remains a drag

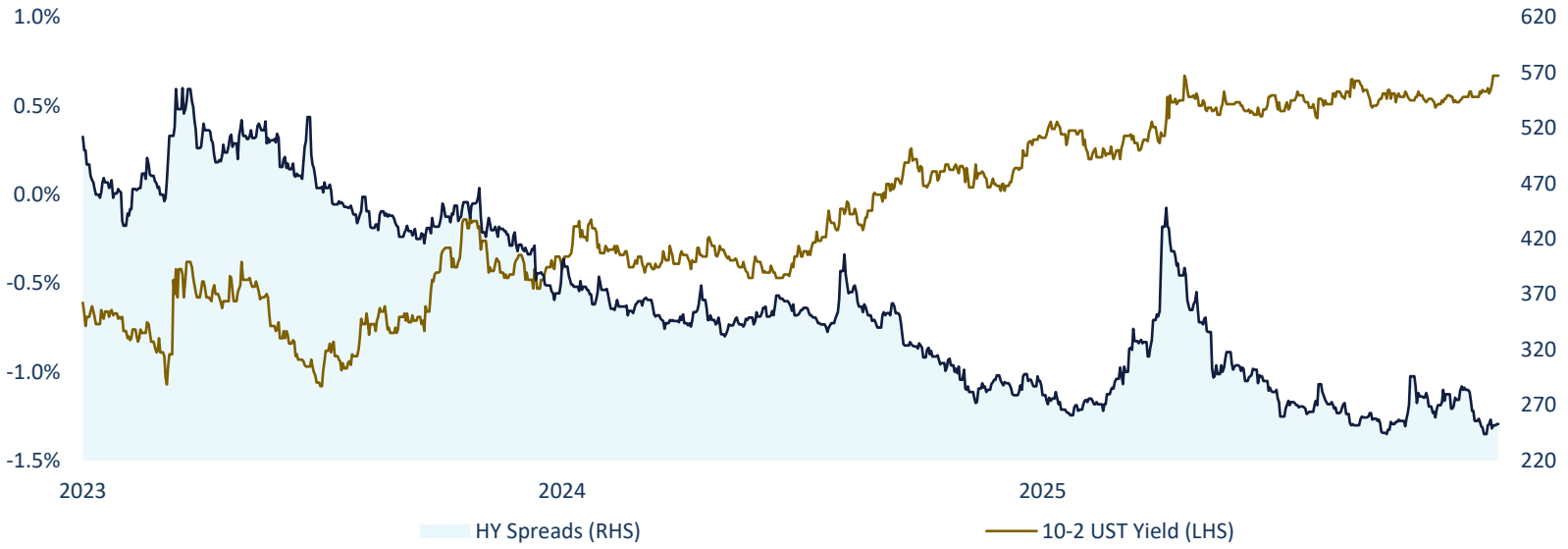


- **Growth momentum is improving on the margin in the US and Europe**, with recent data coming in above expectations and reinforcing a low near-term recession probability across developed markets. The cycle remains uneven, but the direction of travel is stabilizing rather than deteriorating.
- **China continues to disappoint**, weighed down by a **prolonged real estate crisis** and **persistently weak consumption**. This divergence matters for global composition and sentiment, but so far it has not translated into systemic stress elsewhere.

Source: Bloomberg

Term Premia Over Credit Spreads

Tight spreads and a steeper curve shift the risk-reward

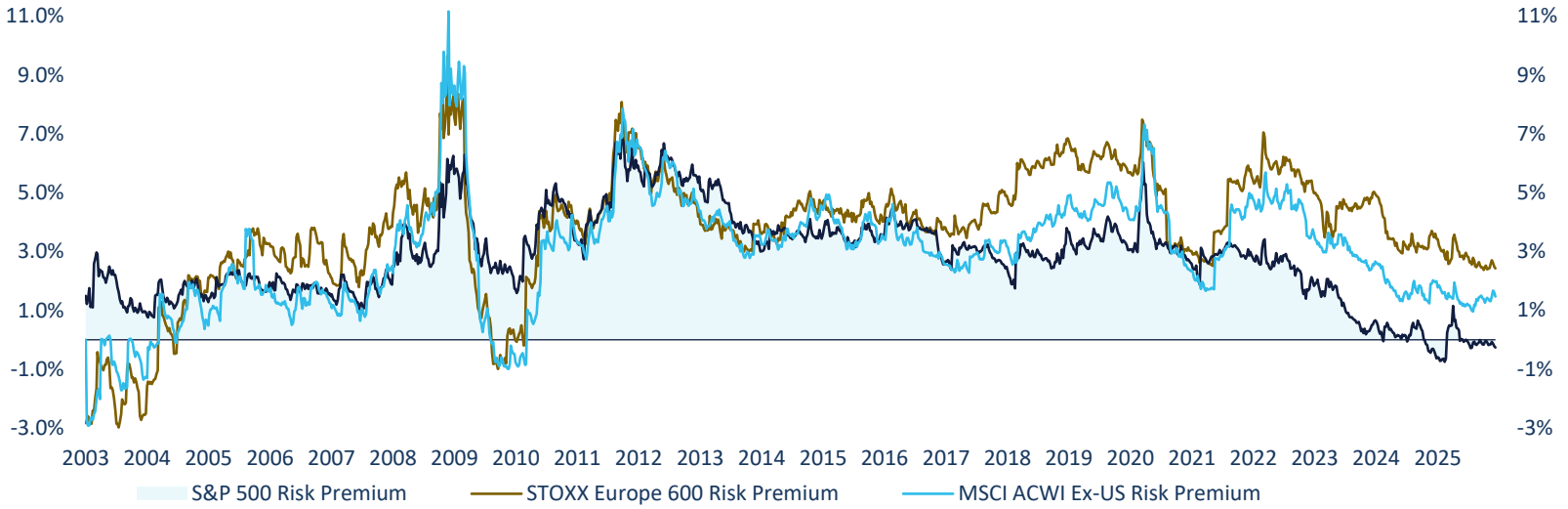


- **Credit spreads remain tight**, offering limited compensation for downside risk at a late stage of the cycle. With little buffer against growth or liquidity shocks, adding credit risk looks increasingly asymmetric.
- **A steeper yield curve improves the case for duration**. Higher term premia and more attractive carry favor extending interest-rate exposure rather than reaching for yield through credit, particularly in government bonds.

Source: Bloomberg

Asymmetric Risk Compensates for Tight Premia

Limited downside, unusually large upside potential

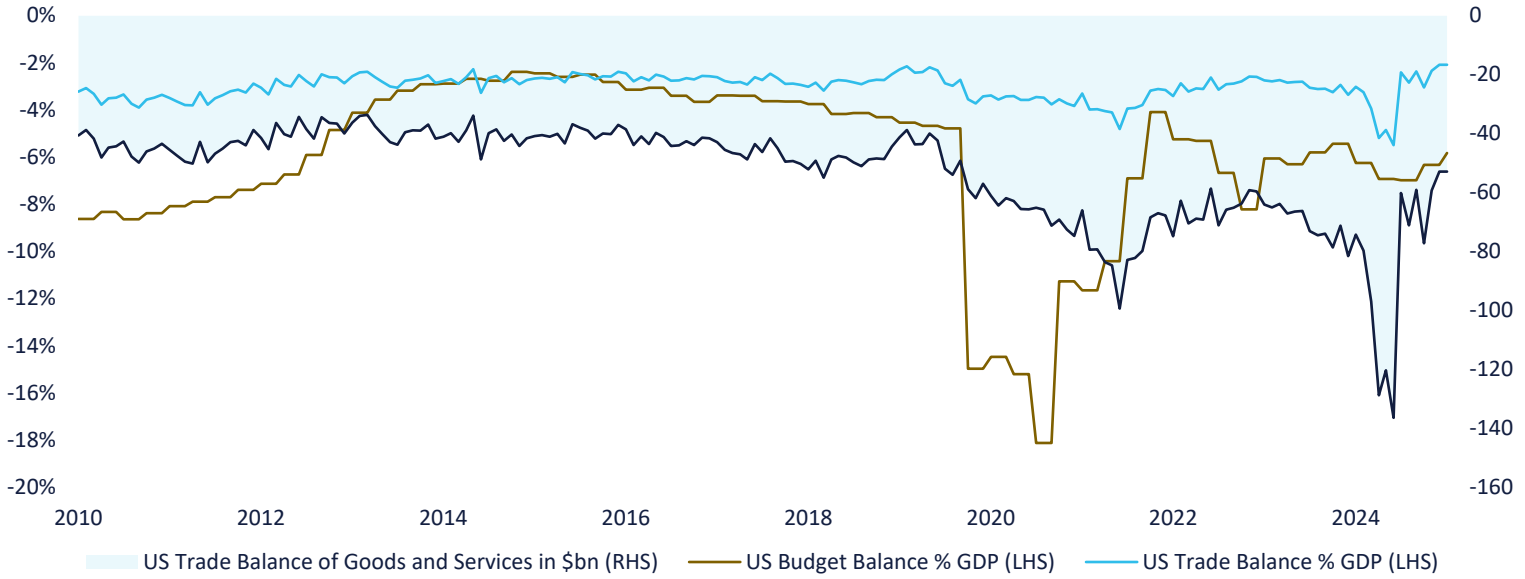


- **Equity downside risks look largely "business as usual."** Valuations leave less room for disappointment, but there are **no clear signs of speculative excesses or bubble dynamics**. A cyclical slowdown remains a risk, yet one that markets have historically been able to absorb.
- **Upside asymmetry remains meaningful, especially in the US**. AI-driven productivity and earnings gains represent **a larger opportunity set than in prior cycles**, even as global equity risk premia have compressed. While US equities appear expensive in absolute terms, growth prospects remain more compelling than elsewhere.

Source: Bloomberg

Fundamentals Will Prevail Over Narratives

Improving balances and growth differentials support USD



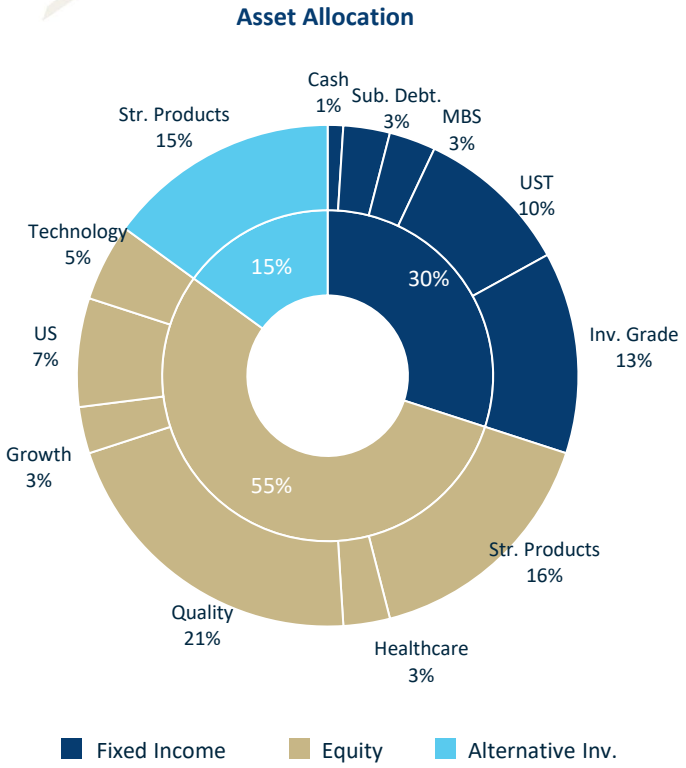
- **Trade and fiscal deficits are starting to narrow**, easing concerns around US Treasury issuance and foreign demand. Combined with resilient growth and gradually easing inflation, this reduces pressure on the US funding outlook at the margin.
- **As inflation and monetary policy regimes converge globally**, relative growth differentials regain importance. With the US still offering stronger growth dynamics, this backdrop argues for a **firmer US dollar into year-end and early 2026**.

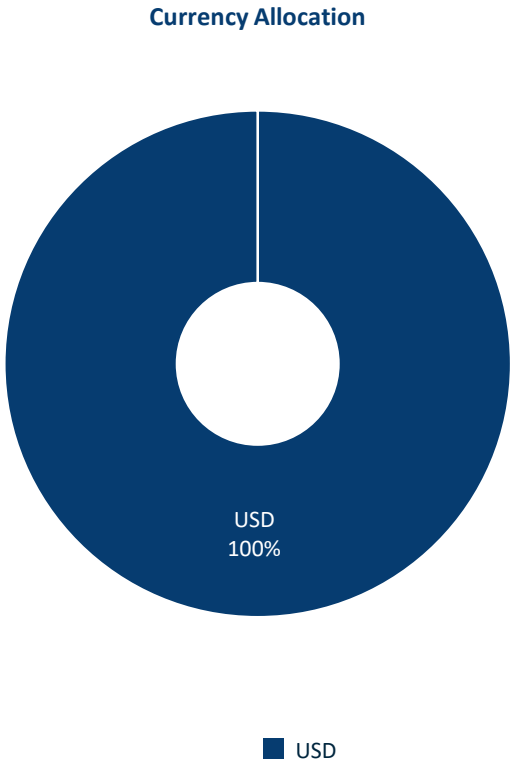
Source: Bloomberg

Investment scenarios

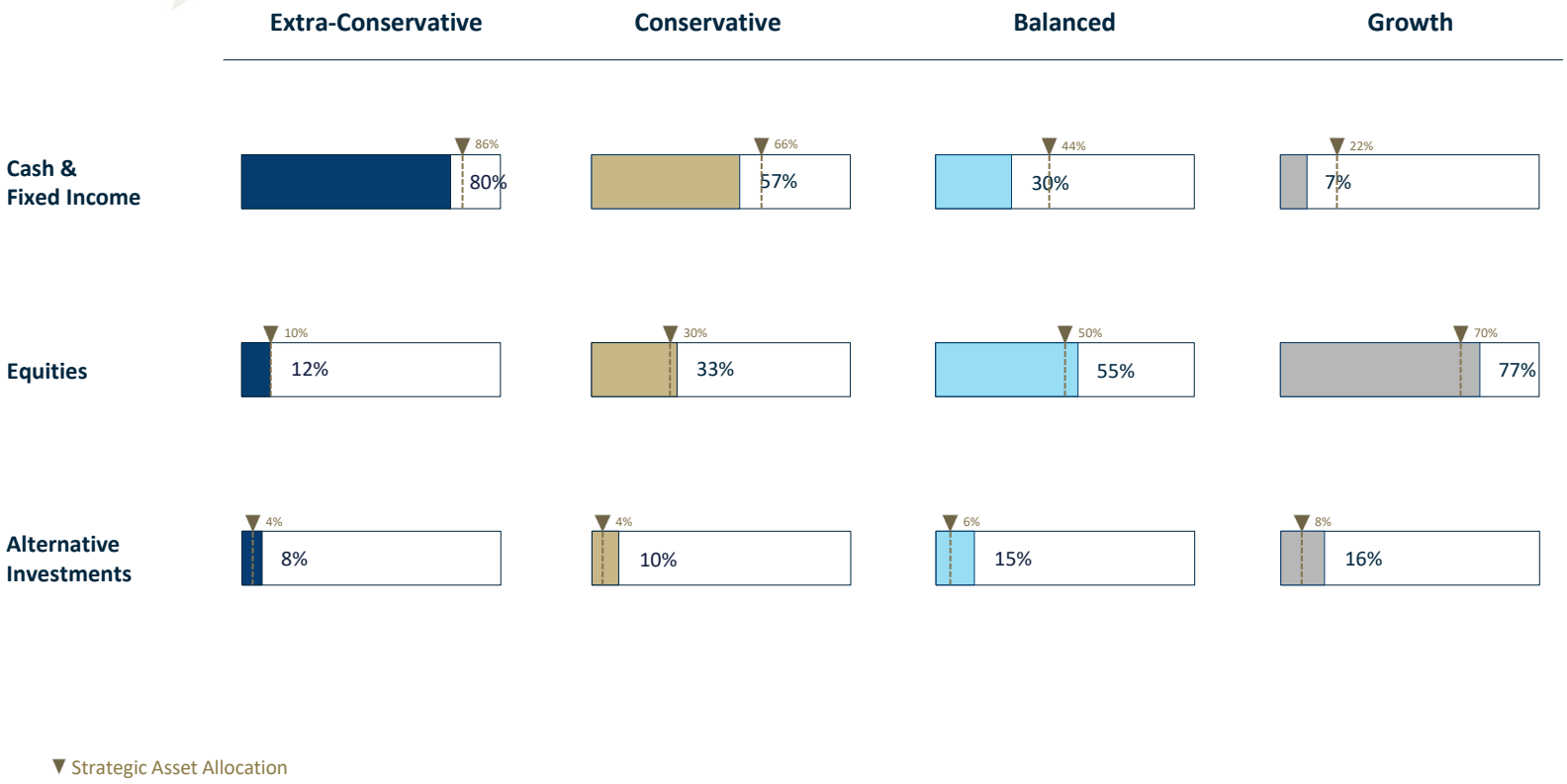
	Scenario 1 Policy mistake - Too Loose, Too Tight	**Scenario 2** Tailwinds Power Continued Expansion	**Scenario 3** AI - Boom or Bust?
Drivers	• Inflation remains above target, supported by a tight labor market, resilient housing and possible renewed trade frictions. • The Fed misjudges the balance between growth and inflation: it keeps policy too restrictive for too long or, alternatively, eases prematurely and is later forced into a more aggressive tightening cycle.	• Pro-growth policies, solid balance sheets and accommodative monetary and fiscal stances extend the business cycle. • Disinflation continues, allowing the Fed to start a gradual cutting cycle toward a neutral stance without reigniting inflation. • Robust real growth narrows the fiscal deficit at the margin, the yield curve steepens slightly, credit spreads stay tight and corporate earnings rise steadily.	• AI has the potential to lift productivity and corporate earnings significantly, but also to generate economic and social disruption, as well as episodes of market euphoria and panic. • Large investments in AI-related infrastructure support growth in the short term, while creating the risk of overcapacity and disappointment if the technology or its adoption falls short of expectations.
Market impact	• Equities decline as earnings expectations are revised down and valuation multiples compress, although the “Fed put” limits the depth of the correction once policy turns easier. • Credit underperforms as spreads widen from historically tight levels and investors demand more compensation for risk. • High-quality sovereign debt rallies on “flight to quality” flows and the prospect of lower policy rates; cyclical and commodity-linked assets lag. • The US dollar tends to appreciate in risk-off phases and if the Fed remains relatively hawkish, but could weaken if the US slowdown leads the global cycle and rate cuts become more aggressive.	• Equities are supported by healthy earnings growth and broadly constructive policy, with leadership gradually broadening beyond mega-cap technology. • Credit performs well: default rates stay low and spreads remain contained, allowing carry to dominate returns. • High-quality and sovereign debt deliver solid income and some potential price upside if long-term yields drift lower as policy rates are cut. • Commodity prices firm on economic strength; the US dollar remains broadly stable, supported by growth and positive real rate differentials versus most peers.	• Over time, it is hard to ignore AI’s positive impact on earnings and margins across many sectors, which can “lift all boats” and justify higher valuations, especially for AI leaders. • At the same time, high expectations and crowded positioning increase the risk of sharp corrections when earnings, regulation or technology outcomes disappoint, leading to boom-and-bust episodes in AI-linked assets (with spillovers to the broader market). • The effect on interest rates and inflation is non-linear: a capex boom may keep demand and real rates elevated in the transition, while productivity gains could become disinflationary only with a lag, making the path for policy rates harder to read.
Probability	15%	65%	20%
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



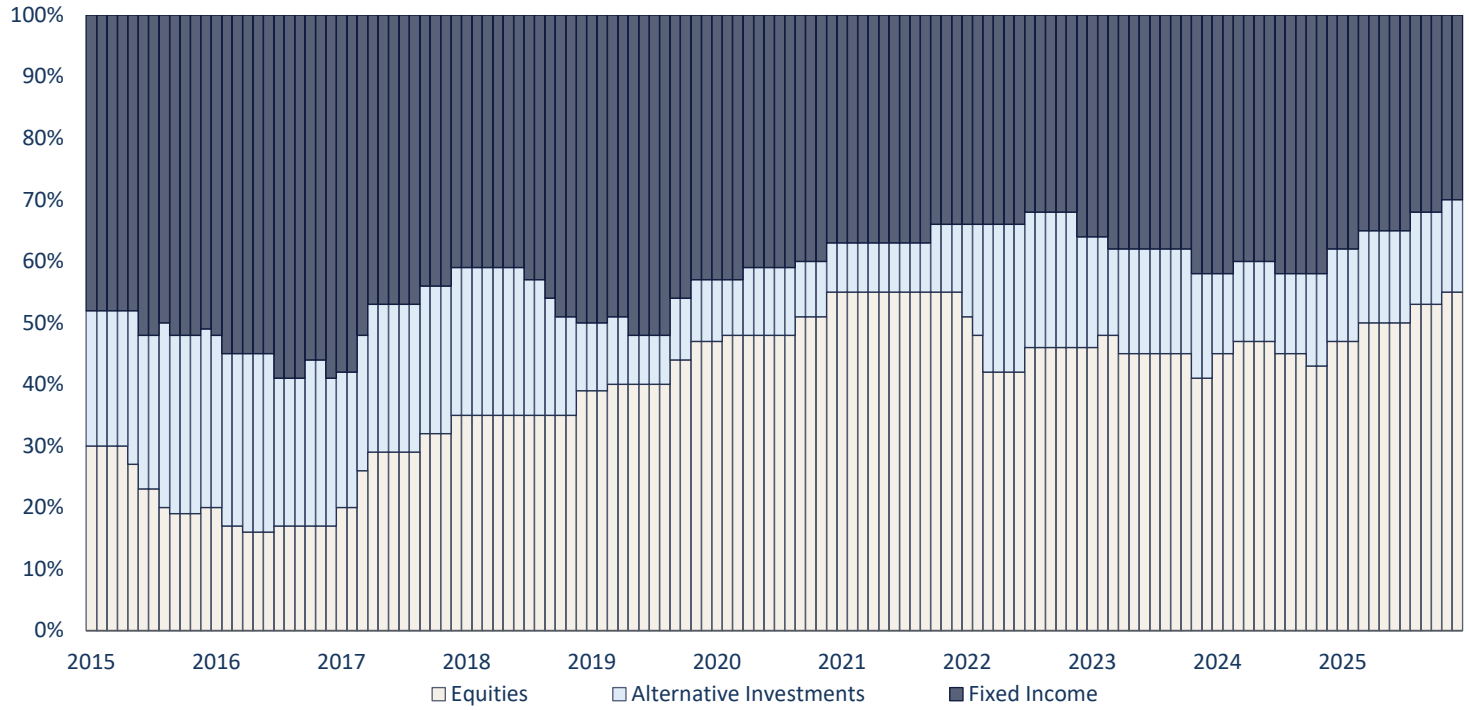


Boreal Investment Profiles



▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution



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