

Investment Policy

Our market view in a nutshell – January 2026

- **U.S. growth is re-accelerating, and the upside surprise is fundamental rather than noise.** Q3 real GDP printed at 4.3%, and the Atlanta Fed's GDPNow is tracking approximately 5.3% for Q4, a meaningful re-rating of near-term momentum. What is different this time is that productivity is doing more of the heavy lifting. The data show a strong productivity impulse alongside easing labor-cost pressure, a mix that can support growth without forcing the Federal Reserve to tighten into strength.
- **A Goldilocks regime is re-emerging: inflation is moderating, the labor market is stabilizing, and policy can remain supportive.** For the second straight month, inflation surprised on the downside and is sitting near a level consistent with realized inflation over past decades, modestly above the stated 2% target. With December CPI around 2.7% and core CPI around 2.6%, and unemployment near 4.4%, the economy does not look recessionary, nor does it appear overheated. Add the decline in unit labor costs, and the normalization narrative strengthens: disinflation can continue without a material rise in joblessness, leaving room for rate cuts if the trend persists.
- **AI is the hidden catalyst, and official statistics likely underestimate its true productivity effect.** The intuition is simple: more output per hour, and a rapidly growing volume of market-comparable services delivered at near-zero marginal price. The wedge between services delivered and revenues captured is what you framed as "shadow GDP." This matters because it can lift potential growth while muting inflation pressure, a rare combination. AI leadership remains U.S.-led, with China as the key follower, but the growth impulse is global. Improving prospects abroad therefore offer a stronger reason to diversify beyond U.S.-only exposure than simply pointing to cheaper multiples.
- **Fiscal deficits still matter, but markets punish credibility rather than headlines, and growth remains the cleanest exit.** Japan remains a useful case study: when investors become uneasy about the policy mix, pressure tends to surface. The lesson applies beyond any single country. Highly indebted sovereigns are not penalized for debt levels alone, but for a loss of credibility around stabilization. The path is straightforward, even if not easy: maintain policy credibility and allow productivity-led growth to compound. If the United States sustains strong real growth, the fiscal trajectory improves mechanically through stronger revenues and a healthier denominator, even if politics remains noisy.
- **Beware debasement narratives and overly simple hedges; focus on fundamentals and where asymmetry truly sits.** Precious metals can diversify, but they are not a magic bullet. They may reduce exposure to some risks while increasing exposure to others, particularly speculative positioning. Earnings are the near-term arbiter: Q4 results will test whether equity valuations are justified by delivery. Credit spreads remain tight, consistent with a durable cycle, but leaving limited room for capital appreciation. Carry can work, yet the more compelling asymmetry remains the risk of missing compounding versus the downside of an ordinary drawdown, which sits more clearly in equities than in credit.

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
	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

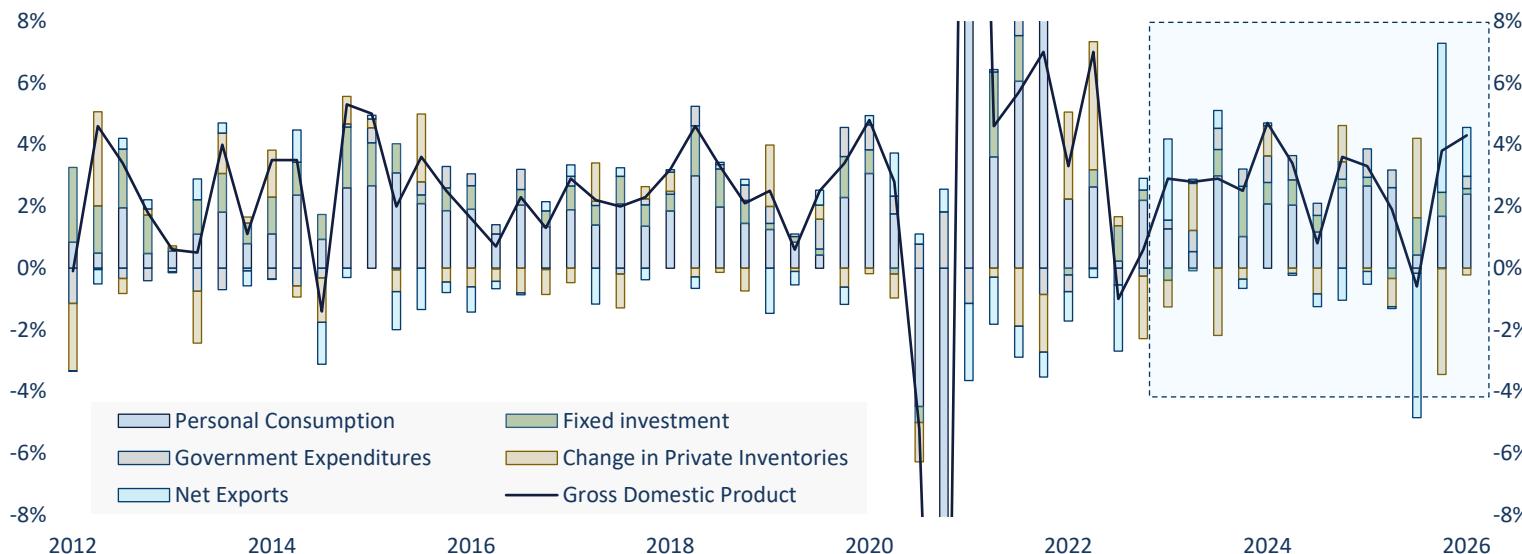
⊕ Overweight

⊖ Underweight

≡ Neutral

Return to a Higher Growth Trajectory?

Breaking out of the post-GFC growth regime

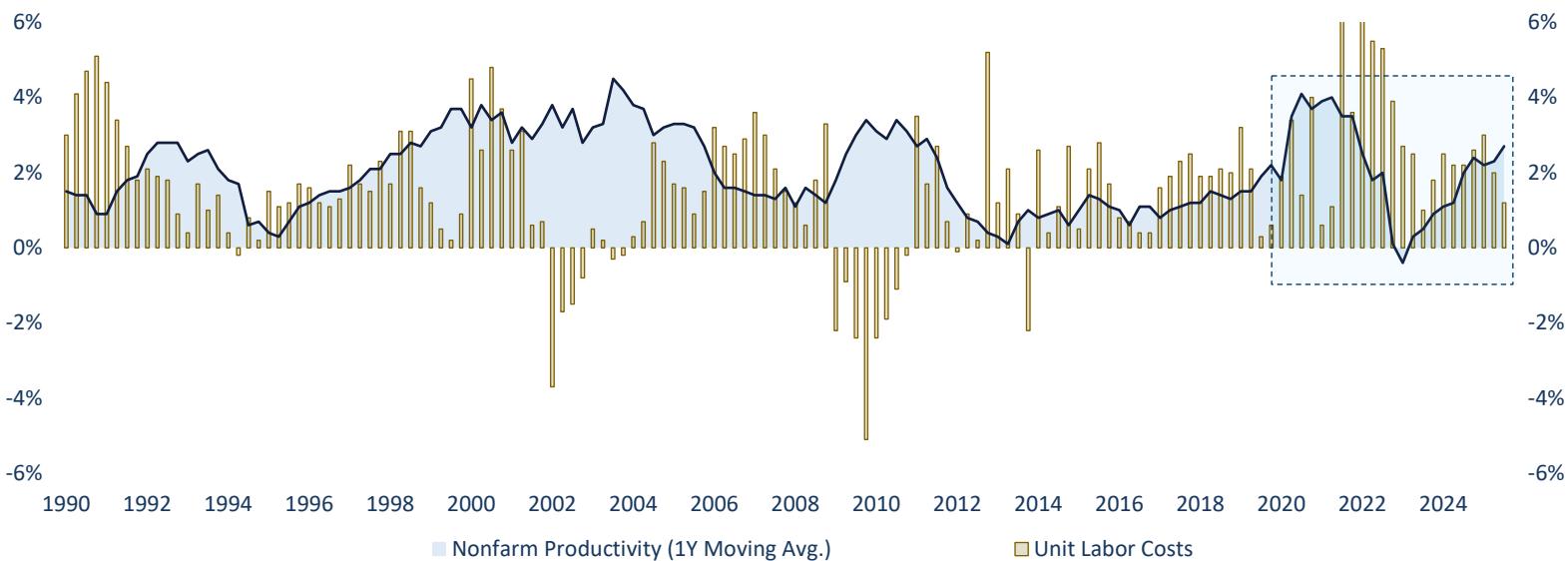


- **Q3 delivered a clear upside surprise, led by consumption.** Real GDP grew 4.3% annualized, well above consensus expectations, with resilient household spending accounting for a significant share of the strength.
- **Momentum looks persistent rather than transitory.** The strength in Q3 was foreshadowed by the **Federal Reserve Bank of Atlanta GDPNow** model and has since extended further, with real-time estimates now tracking around 5% for Q4, pointing to a meaningful re-acceleration relative to the post-GFC growth norm.

Source: Bloomberg

A Productivity Miracle is a Real Possibility

AI as a once-in-a-century general-purpose technology

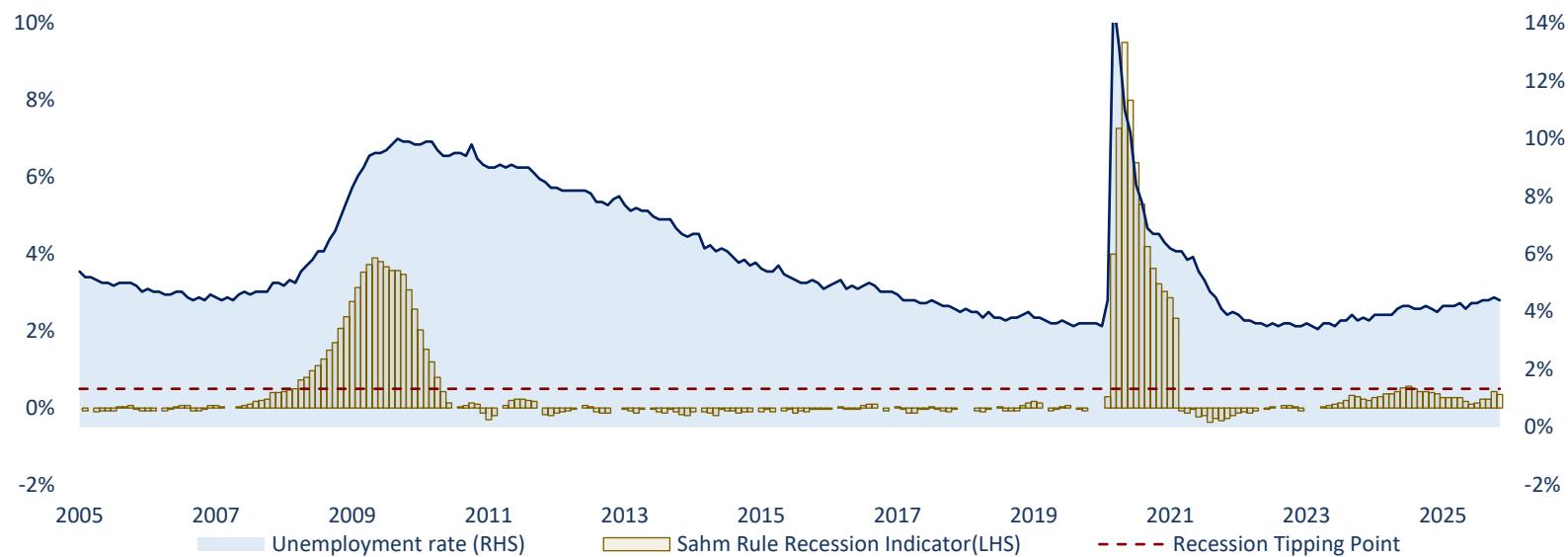


- **From post-GFC stagnation to a potential 1990s-style revival.** Productivity growth was structurally weaker after the GFC, consistent with the broader slowdown in trend growth. AI has the hallmarks of a general-purpose technology and could lift productivity toward the higher regime seen in the 1990s as adoption scales.
- **Disinflation via labor costs: AI may be more deflationary than assumed.** By automating tasks and amplifying human output, AI can reduce unit labor costs and weaken wage-to-price pass-through, allowing growth to remain strong without overheating the economy.

Source: Bloomberg

Cooling in the Best Possible Way

Labor market stabilizes with limited job losses

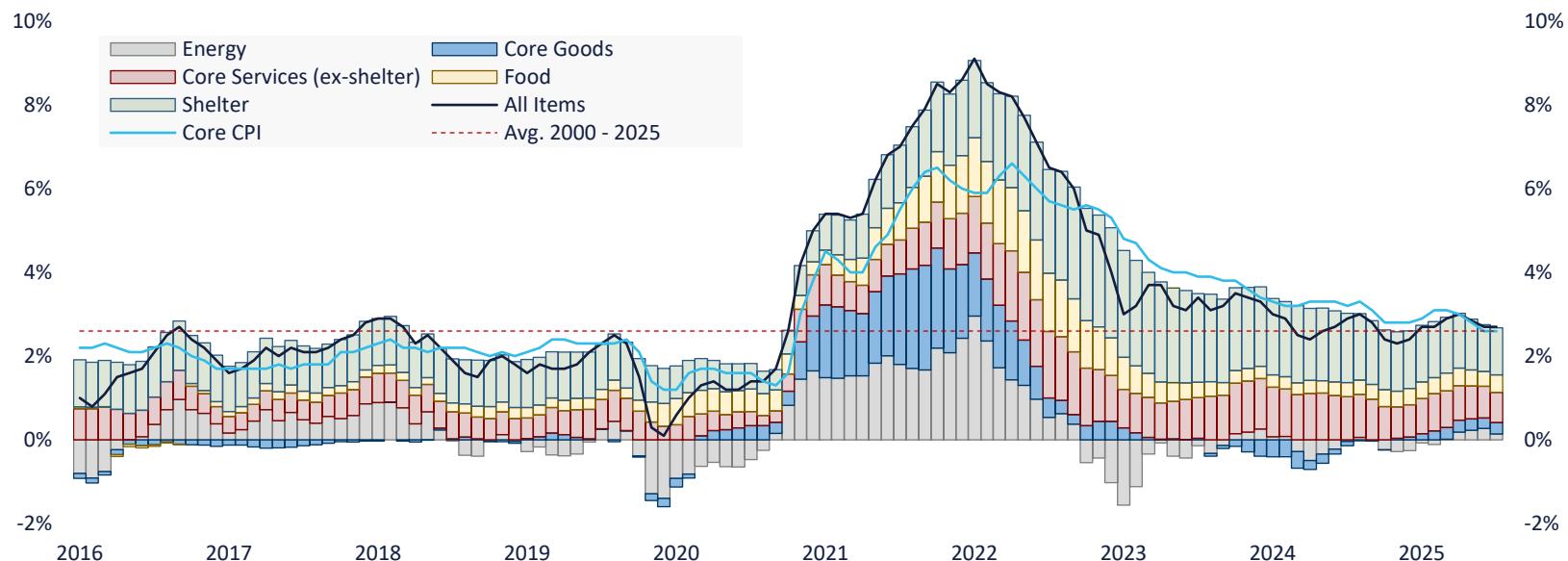


- **The level matters as much as the change.** Unemployment has edged higher but remains historically low and well anchored, consistent with a soft landing rather than a downturn. Labor-market conditions are cooling, not cracking.
- **Deceleration without destruction.** The acceleration signal captured by the Sahm Rule has slowed materially, indicating that labor-market momentum is stabilizing rather than deteriorating. Crucially, the economy is not destroying jobs, reinforcing the case for normalization rather than recession.

Source: Bloomberg

The Last Piece of the Goldilocks Puzzle

Inflation returns to its usual (slightly above-target) level

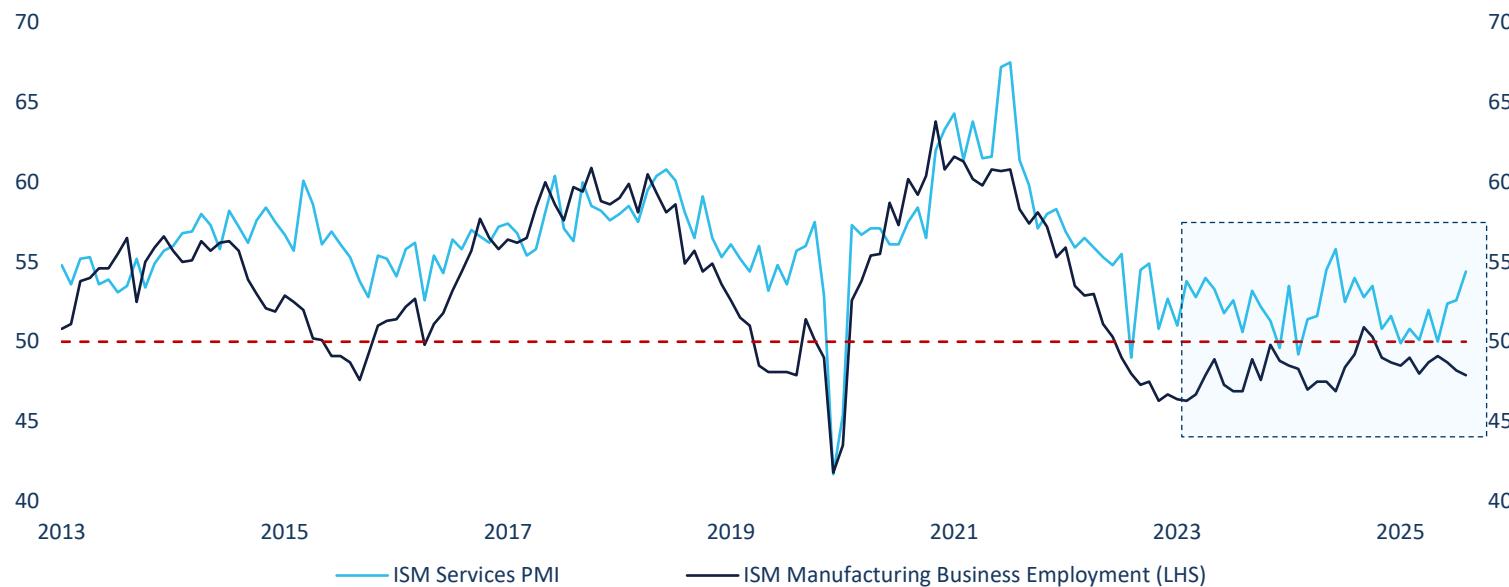


- **Disinflation without damage.** Inflation keeps surprising on the downside and now sits near levels consistent with realized inflation over past decades, modestly above the formal 2% target. With headline CPI around **2.7%** and core near **2.6%**, inflation no longer looks problematic.
- **Normalization supports policy flexibility.** With unemployment near **4.4%** and unit labor costs easing, the economy does not appear overheated nor recessionary. Disinflation can continue without a material rise in joblessness, allowing monetary policy to remain supportive.

Source: Bloomberg

Still Not All Cylinders Firing

Services lead while manufacturing remains in contraction



- **A two-speed economy persists.** PMIs show **services accelerating** while **manufacturing remains in contraction**, a pattern also visible in Europe. The growth engine is therefore intact, but narrower than in a broad-based expansion.
- **Manufacturing should catch up if growth holds.** With activity expanding firmly, the base case is that manufacturing eventually exits its slump as inventories normalize and demand broadens. **Services may also benefit earlier from AI adoption**, as productivity gains can be deployed faster in digital and knowledge-work processes than in capital-intensive production.

Source: Bloomberg

When Protection Turns Speculation

Narratives overpower fundamentals



- **Gold manias follow a familiar script.** Periods of elevated uncertainty fuel catastrophic narratives, pushing gold beyond what fundamentals justify and often triggering delayed overreactions in silver and other precious metals.
- **Gold can play a role in portfolios, but timing matters.** When positioning is driven by narrative rather than macro fundamentals, protection turns into speculation. Past episodes, including the 1970s and more recent cycles, show that late entry into narrative-driven rallies has delivered poor risk-adjusted outcomes.

Source: Bloomberg

A Structural Allocation, Not a Referendum on U.S. Politics

Stronger economic growth has reduced foreign ownership over decades

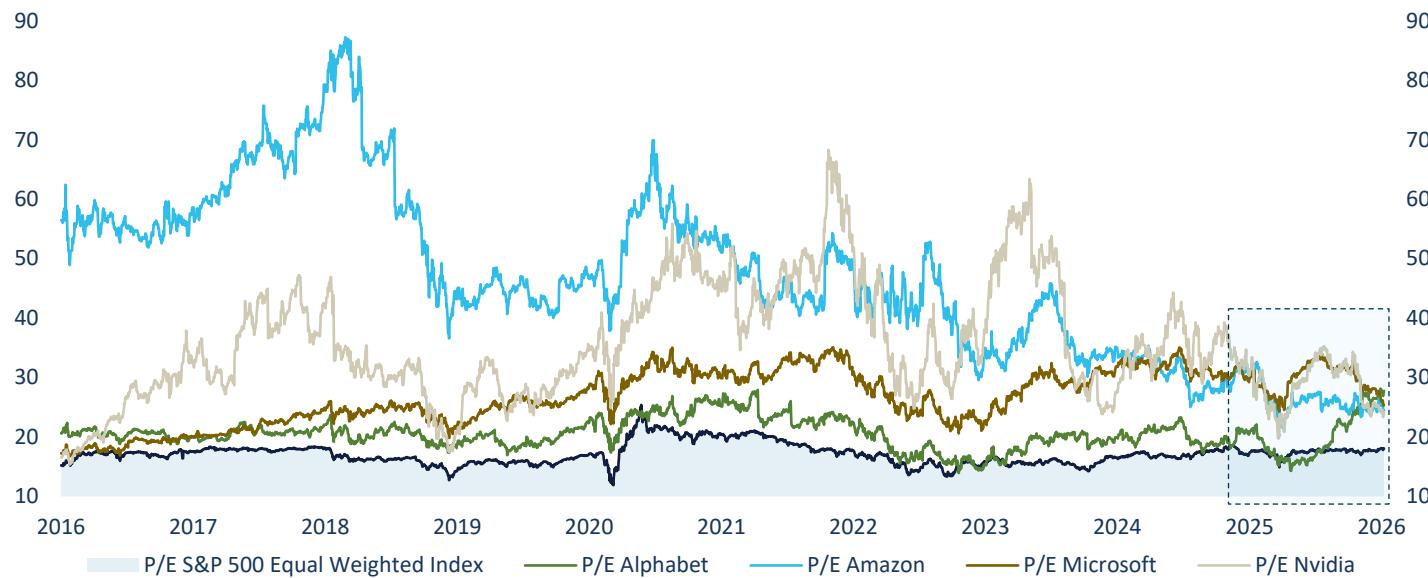


- The U.S. issues debt in its own currency and benefits from “captive” demand, reflecting the irreplaceable role Treasuries play in the global financial system.** The declining share of foreign ownership reflects rising domestic absorption, as the U.S. economy continues to outperform peers, rather than foreign selling driven by policy or geopolitical considerations.
- Japan offers a complementary example.** Despite a much higher debt-to-GDP ratio (**237% of GDP**, versus about **~122% for the US**), Japan remains less sensitive to debt levels because with most held by domestic institutions.

Source: Treasury International Capital System and Federal Reserve Bank of St Louis

Do Not Overcomplicate

AI leaders still trade within historical valuation ranges



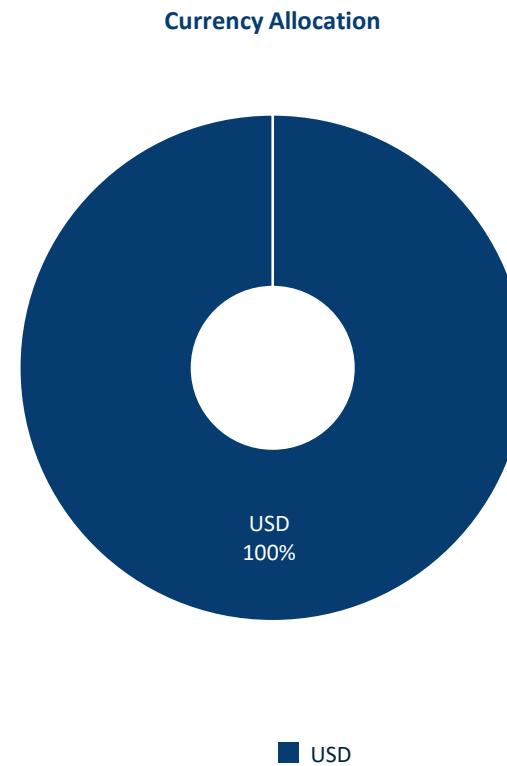
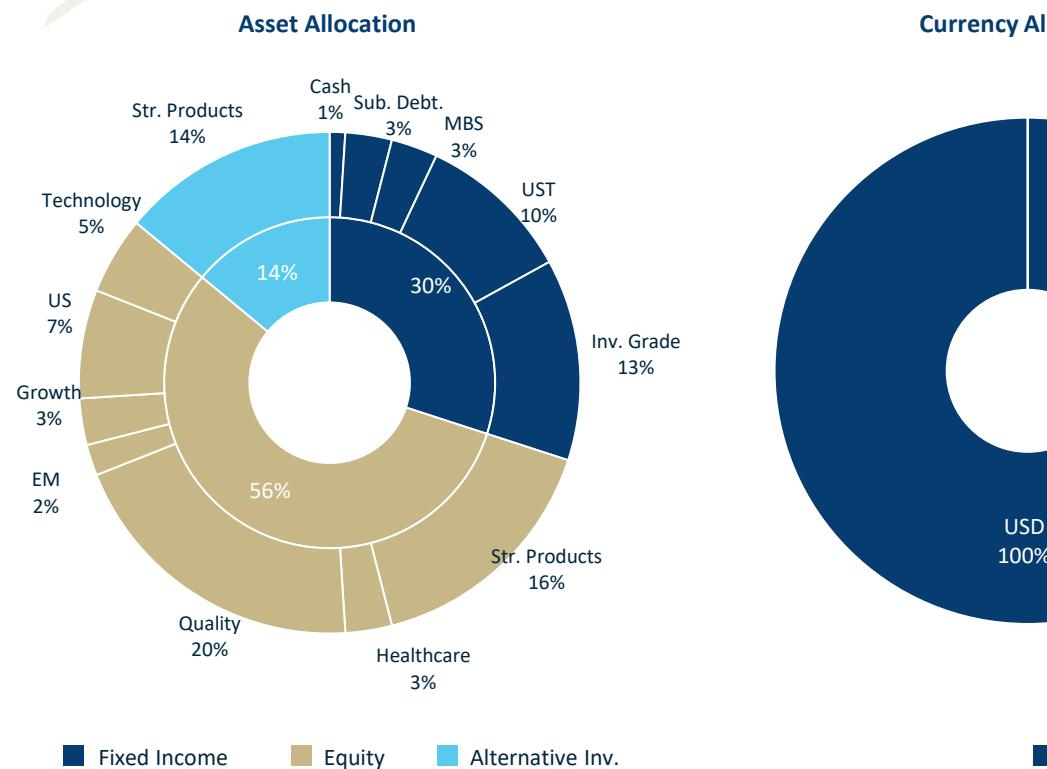
- **No multiple mania.** Valuations for the main AI-adjacent hyperscalers remain broadly **within their pre-AI ranges**. In several cases, multiples have compressed or moved sideways, and some stocks have even **lagged the broader market** over recent years.
- The gap between **value created and value captured** remains wide, as much of today's AI benefit still appears as unpriced productivity. As inference becomes metered and embedded, **capture should rise over time**. The risk of missing that transition outweighs the risk implied by current multiples, creating a favorable asymmetry.

Source: Bloomberg

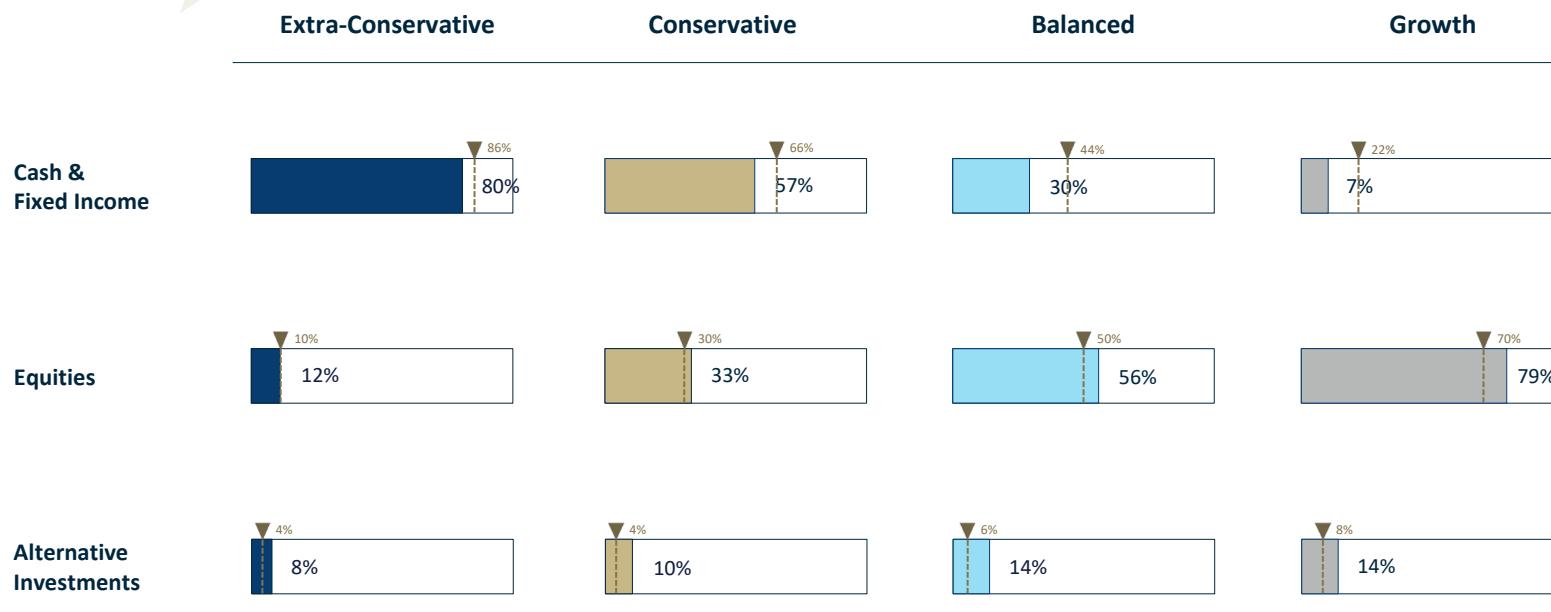
Investment scenarios

	Scenario 1 Policy mistake - Too Loose, Too Tight	Scenario 2 Tailwinds Power Continued Expansion	Scenario 3 AI - Boom or Bust?
Drivers	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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%	70% (+5%)	15% (-5%)
Short-term catalysts			
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			

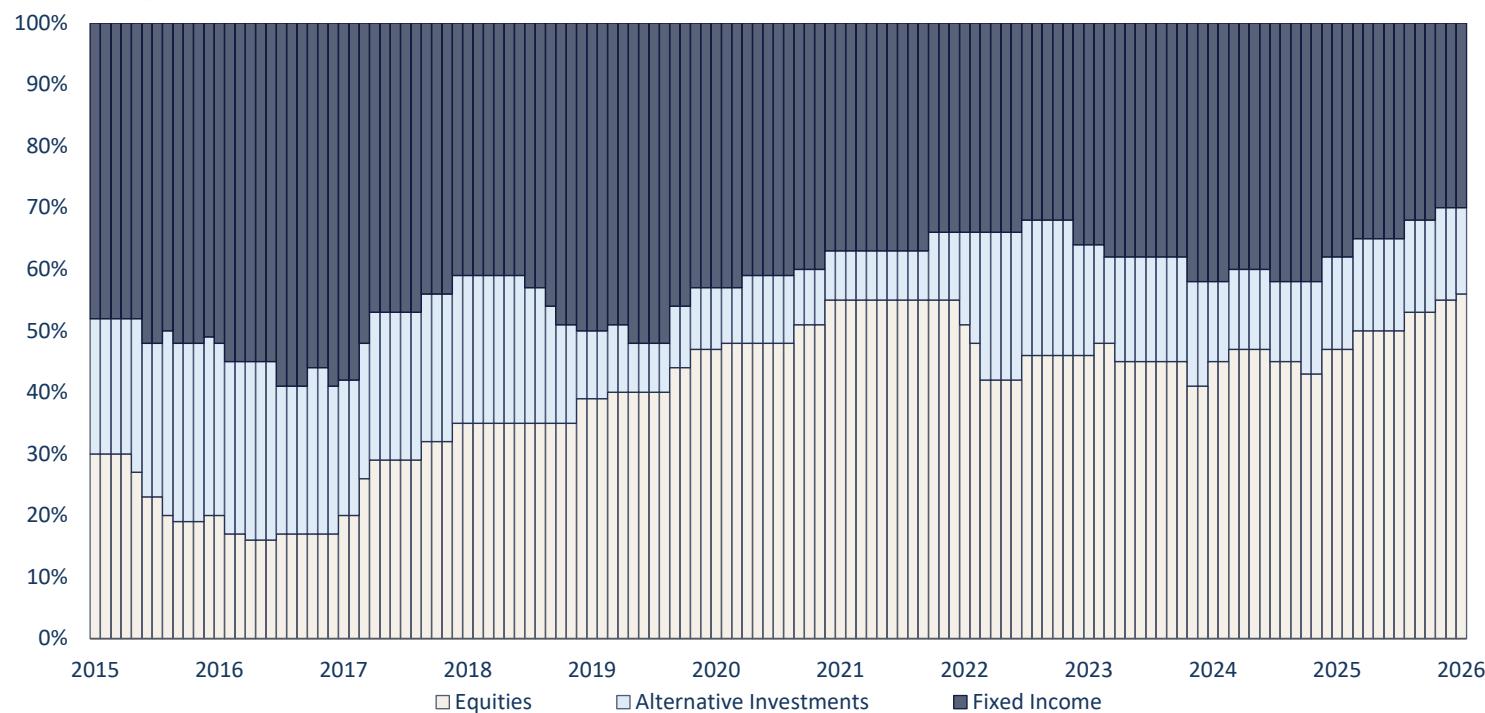
Boreal Balanced Portfolio USD



Boreal Investment Profiles



Boreal Balanced Portfolio – Asset Allocation evolution



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