Quarterly Letter

July 2025

Content

Executive summary

Markets have recovered to pre-Liberation Day levels and, in some cases, are reaching new all-time highs. Yet beneath the surface, the world appears more fragile.

While short-term economic indicators remain resilient, we believe markets, especially U.S. equities, are unjustifiably priced for perfection.

Valuations are elevated, geopolitical risks are multiplying, and tariff-driven inflation is building.

Against this backdrop, we remain cautious and contrarian: underweighting risk assets, particularly U.S. equities, and focusing on safe havens, long-term opportunities, and strategic hedging through uncorrelated assets.

Complacency is, in our view, the biggest risk today. The world is undergoing a structural geopolitical shift, and the era of easy assumptions about alliances, institutions, and market behavior is over.

Furthermore, we believe the US Dollar has entered a structural bear market, no longer functioning as a reliable risk-off asset. We have cut USD bond exposure, increased gold holdings, and remain selective in U.S. equities, focusing on areas of true exceptionalism.

Finally, our focus turns to the food sector, where climate, health, and innovation pressures are reshaping the industry. Defensive large caps remain attractive, but long-term growth will come from innovative players driving the upcoming food revolution.

Now more than ever, our task is to cut through the noise, focus on enduring value, and avoid being drawn into risk-on complacency.

Opportunities remain but finding them requires looking beneath the surface and challenging simplistic narratives.

Building resilience in a volatile market

What just happened? The signal beneath the noise

The early days of Trump's second term have brought a torrent of drama, distraction, and dissonance, distorting rational debate and swaying markets more through headlines than fundamentals. The noise, mostly political theatre, first created an illusion of crisis and now an illusion of calm, while real structural changes unfold in the background.

This period reminded us how critical and difficult it is to tune out noise and focus on facts. In hindsight, political noise influenced our own internal debates, but fortunately (or wisely), we refrained from acting on chaos.

Today, markets have rebounded to pre-2025 levels (Exhibit 1), but the world is more fragmented, uncertain, and scarred.

Exhibit 1: Markets have rebounded and are making new all-time highs

Source: Bloomberg

Trade barriers are higher, policy is more erratic, and institutional credibility has suffered lasting damage. To us, the rebound appears fragile, if not unwarranted.

Market rebound: We're still not impressed

Our cautious positioning (Table 1, EUR and CHF-based portfolios) kept us above water through the volatility. Although we underperformed during the later stages of the rebound, we remain ahead year-to-date. We viewed the rally as detached from fundamentals. During the dip, we bought Chinese, Swiss, and U.S. tech stocks (the latter we exited, too early!). Subsequent trades focused on reducing USD bond exposure and increasing our allocation to gold. We also closed our tactical Bitcoin position.

Table 1: Tactical Decisions for 2025 Q2

Asset Class	Active Decision	Tactical Views	Q2 Changes
Money Market	O/W	8.0%	+
Fixed Income	N	20.0%	-
Equities	U/W	48.0%	+
Alternatives	O/W	24.0%	+

Note: Active decisions – O/W (overweight), U/W (underweight), N (neutral)

"Amid headlines and rebounds, we remain focused on what matters: fundamentals, discipline, and structural resilience — the cornerstones of long-term value in an uncertain world."

Risk-off vs. risk-on: Why we remain defensive

We see 4 key reasons to maintain a cautious stance:

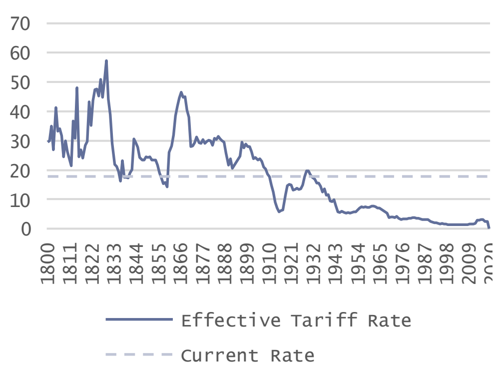
1. Staying true to core investment priorities

Our core mandate isn't to win headlines or speed races. It's to protect capital during dislocations, deliver strong long-term returns, and avoid unnecessary reactivity. That means prioritizing strategic over tactical moves and resisting the current risk-on euphoria.

2. Macro disconnects can't be ignored

Yes, hard data in the U.S. remain resilient; growth continues, unemployment is low, and inflation is manageable. Europe and China are seeing some traction from stimulative economic policies. But we question how meaningful these short-term numbers are, given what's coming.

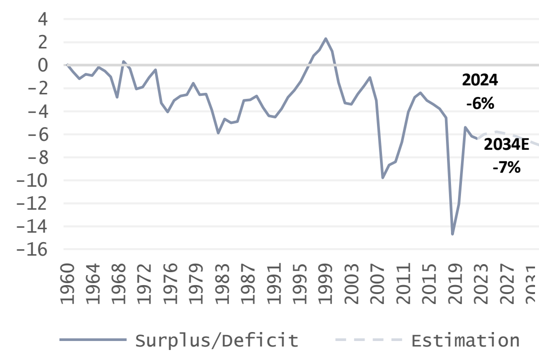
Exhibit 2: Expected U.S. tariff rates are the highest in the post-WWII era



Source: World Bank Global Economic Prospects June 2025

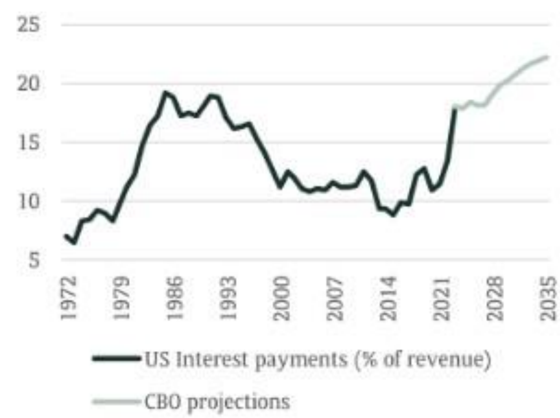
Tariffs are rising to levels not seen in almost a lifetime (Exhibit 2), and Trump's "Big Beautiful Bill" is expected to push the U.S. Federal Deficit to levels never seen outside of recessions, with interest payments surpassing 20% of revenues (Exhibits 3 and 4), and little political resistance. Policy volatility remains high.

Exhibit 3: US Federal deficit in % of GDP forecast



Source: GS Global Investment Research, as of June 18, 2025

Exhibit 4: US interest payments in % of revenue

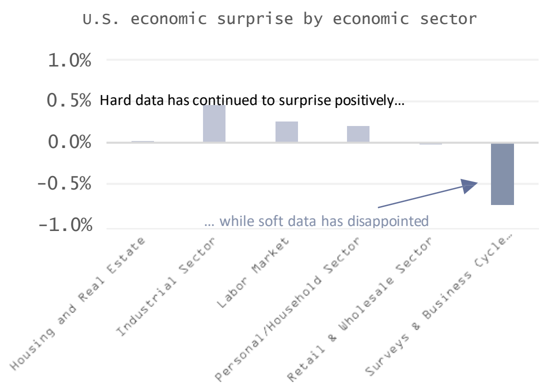


Source: BNP Paribas, CBO, World

"Disciplined investing, long-term thinking — never swayed by the noise."

Soft data also matters. Leading indicators show rising uncertainty, consumer confidence is falling, and businesses report pressure from higher prices. The divergence between hard and soft data (Exhibit 5) is, to us, a sign of deeper structural uncertainty. We expect slower global growth, higher U.S. inflation, and continued conflict, economic and geopolitical.

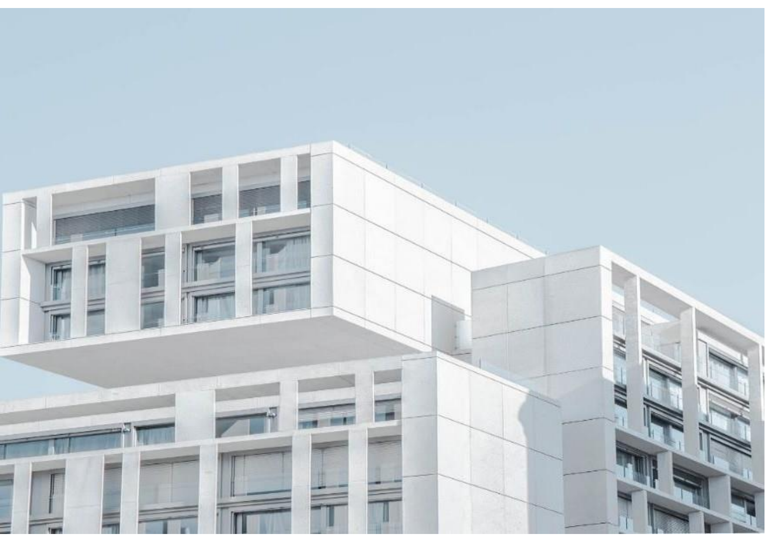
Exhibit 5: Disconnect between hard and soft data



Source: Bloomberg

3. Valuations leave little room for error

Equity valuations already assume an uninterrupted continuation of stellar U.S. earnings and a revival in Europe; expectations we find too optimistic. U.S. forward P/Es are 35% above their 20-year average, and equity risk premiums are lower than zero (Exhibit 6).



Investors are either too bullish or maybe betting on falling rates, but with tariffs rising, that's not a given unless growth surprises sharply to the downside.

Exhibit 6: CAPE earnings yield minus cash is lower than zero.

4. The geopolitical backdrop can't be ignored

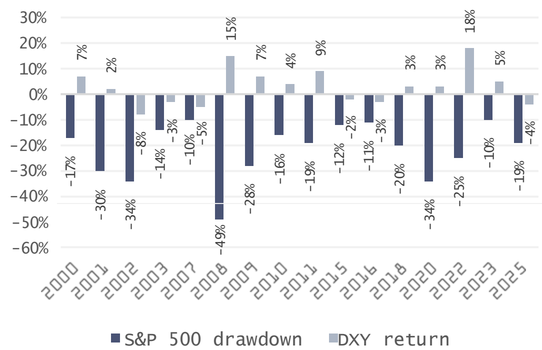
Some argue we're in a "multipolar" era of scattered conflicts, not a new Cold War. That may be true—for now. But history shows small fires can merge into something larger, within and between nations. U.S. domestic instability remains a risk, and markets seem too eager to shrug off high geopolitical tensions.

""In an increasingly fragile world, structure matters — in portfolios, in policy, and in perspective. Discipline and design are not just aesthetic principles, but essential tools for navigating volatility, preserving value, and building long-term resilience."

The dilemma for non-US Dollar investors

The US Dollar's behavior has shifted. It no longer acts reliably as a risk-off asset (Exhibit 7) and has decoupled from its correlation with real yields.

Exhibit 7: USD no longer de-correlated from larger S&P 500 drawdowns



Source: S&P, FactSet, J.P. Morgan Asset Management

We believe the dollar has entered a structural bear market. We've exited non-core USD exposure, opting for alternatives where available, and increased gold holdings as a hedge.

Investment consequences:

- Be more selective with USD assets, i.e. limit exposure to areas where U.S. exceptionalism still applies (e.g., tech and other world class stocks)
- Avoid U.S. government debt
- Use gold as a proxy hedge for USD weakness
- S&P 500 drawdown of 10% or more

"Yesterday's safe haven is today's uncertainty. The dollar's role is shifting — and so must portfolio strategies."

Our view builds on the idea that the USD's strength post-GFC was underpinned by superior U.S. growth supported by energy independence (e.g., shale energy), aggressive fiscal and monetary policy, and dominance in tech. This led to favorable real yield differentials and capital flows into U.S. assets, also strongly supported by global investors' trust in U.S. institutions as a safekeeper of Dollar assets. The following chart (Exhibit 8) from JP Morgan Asset Management beautifully depicts this virtuous circle

"The dollar's halo is fading. Structural cracks in policy, trust, and global leadership are challenging its role as the world's uncontested safe haven — with long-term consequences for investors."

But post-Liberation Day, those foundations are under stress, and the virtuous cycle is at risk. The assumption that the U.S. will remain the world's uncontested financial safe haven is being challenged. Structural outperformance and tech dominance may persist, but the dollar's halo is fading. Whether or not this is an orchestrated policy shift by the administration, as suggested by several market observers (in our view a risky bet) it still implies USD weakness.

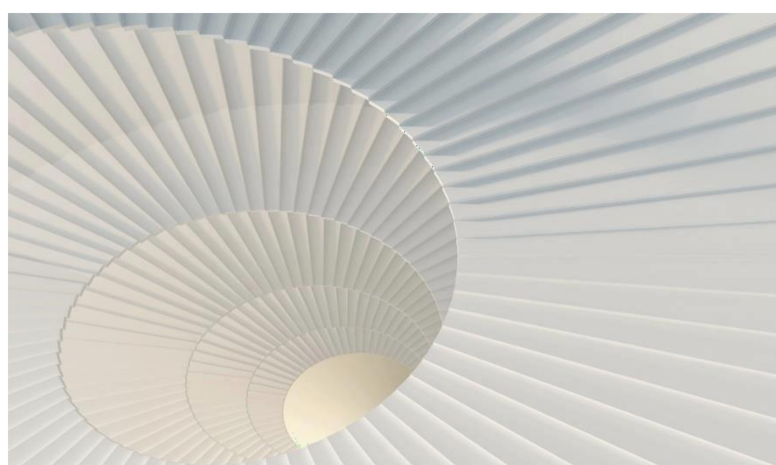
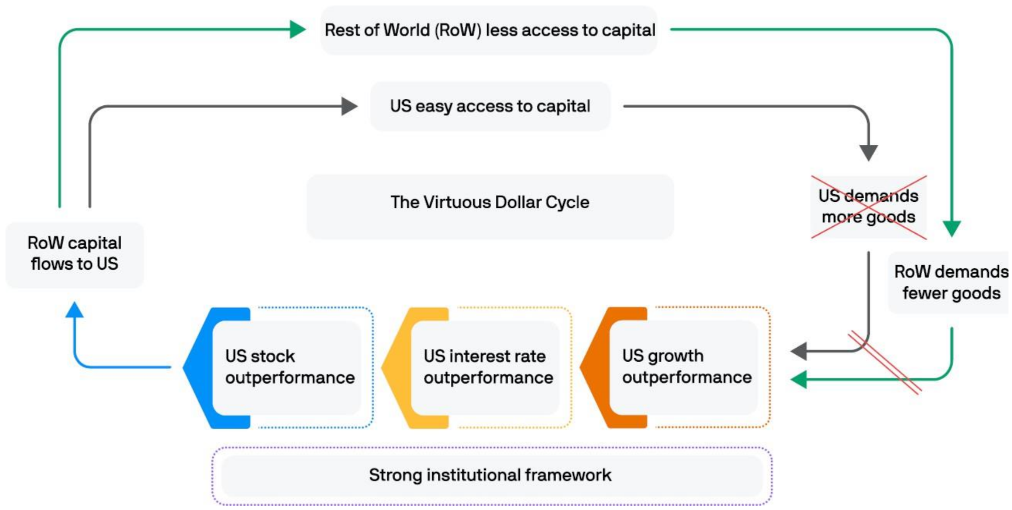


Exhibit 8: Impact of US trade policy on the US dollar



Source: JPMorgan Asset Management

Big future themes

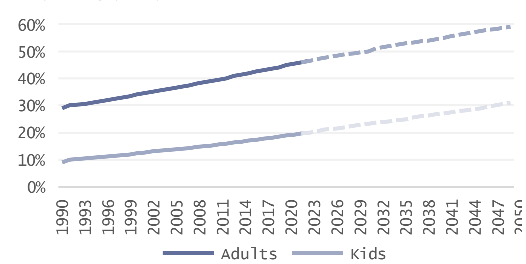
Following our deep dive into Healthcare and Tech in the last letter, this quarter we turn our focus to the Food Sector, another key pillar of structural growth. Agrifood sits at the intersection of several long-term drivers we track and is undergoing profound transformation. Below, we outline the key forces reshaping the industry and where we see opportunities for future winners.

Rethinking investments in Food companies: At the crossroads of food, planet, and people

We like Consumer Staples, particularly Food companies, for their defensive characteristics, attractive valuations, and strong dividend track records. Within large caps, we favor firms exposed to resilient food categories with predictable volumes and earnings, and those committed to returning cash to shareholders.

However, the sector faces structural challenges. As the global population nears 10 billion by 2050, climate risks intensify, and urbanization reshapes consumption, rethinking food systems becomes urgent. Food production drives 30% of global emissions and creates massive waste, while health concerns such as obesity and diabetes (Exhibit 9), rising input costs, and fragile supply chains are reshaping what and how we eat. Regulation is also accelerating, demanding cleaner labels and climate-smart production.

Exhibit 9: Obesity share, 1990-2050, adults (25+) and young people (5-25)



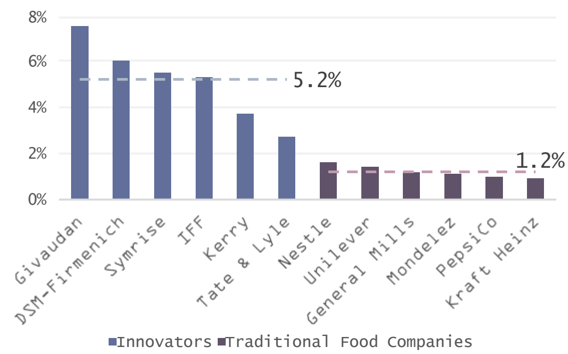
Source: The Guardian

At the core lies a widening innovation gap. While new players pioneer solutions, from lab-grown proteins to vertical farming, many incumbents lag behind. Large food companies like Nestlé and Kraft Heinz invest just 1.2% of revenues in R&D, compared to 5.2% for specialty innovators such as DSM and Givaudan (Exhibit 10). Instead of reformulating unhealthy or unsustainable products, legacy firms often rely on marketing, slowing much-needed transformation.

Investment consequences:

- The global food system is undergoing deep structural change, creating both risks and long-term investment opportunities across the value chain
- We recommend complementing exposure to selected large-cap stocks with an exposure to innovative companies who are at the forefront of the upcoming "food revolution"
- We selected expert investment funds focusing on core enablers of the food revolution and would be happy to advise investors interested in learning more.

Exhibit 10: R&D investment, as % of sales



Source: Bloomberg, company data

"The food industry is no longer just about feeding people — it's about feeding the planet responsibly. As climate risks intensify, supply chains evolve, and health concerns rise, tomorrow's leaders will be those who innovate, not just market. In this structural shift, we seek resilient, forward-thinking companies driving meaningful change across the global food system."

What's next? Base case and risks

Base Case:

We anticipate a mild recession or slowdown, combined with tariff-driven inflation. This stagflationary environment will pressure consumers and corporate margins. Geopolitical shocks are being ignored but could still be disrupted. Markets will remain volatile, but flat at best, through year-end.

Alternative Scenarios:

- Upside: The economy proves resilient; politics and geopolitics remain a sideshow
- Downside: Growth disappointments, geopolitical/financial shocks trigger a correction

While the upside scenario has higher probability, we believe markets are fully priced for it, leaving little buffer if reality falls short.

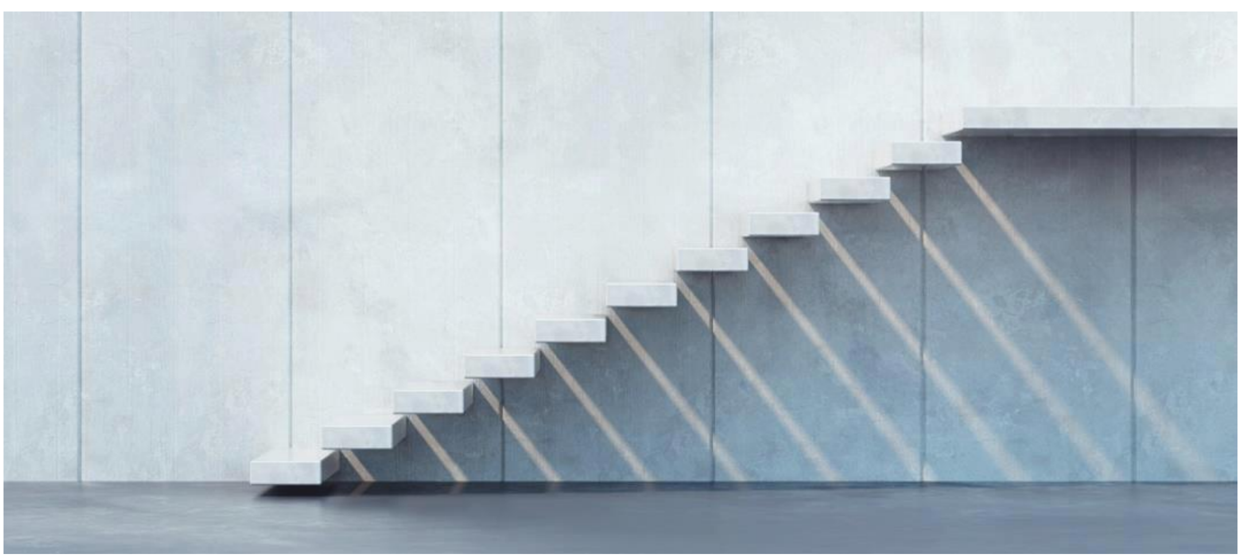
> *"In a world priced for perfection, even a mild shock can unravel the illusion. Resilience, not optimism, is the safer bet."*

A World Priced for Perfection Isn't Ready for a Storm

We cannot ignore the possibility that erratic leadership, shifting alliances, and geopolitical tension are more than just noise. Perhaps 70% are theatre, but the other 30% are real, material risk. In a radically uncertain world, "markets always recover" is not a sufficient strategy.

Investment consequences (EUR/CHF investors

- Underweight equities, especially expensive U.S. stocks
- Favor cheaper and more defensive markets (e.g. China, Switzerland)
- Limit U.S. debt and non-essential USD exposure
- Stay overweight gold and cash for flexibility
- Maintain strategic positions in Hedge Funds and Private Equity
- Re-think exposure to traditional sectors offering secular growth opportunities but where disruption is ripe



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