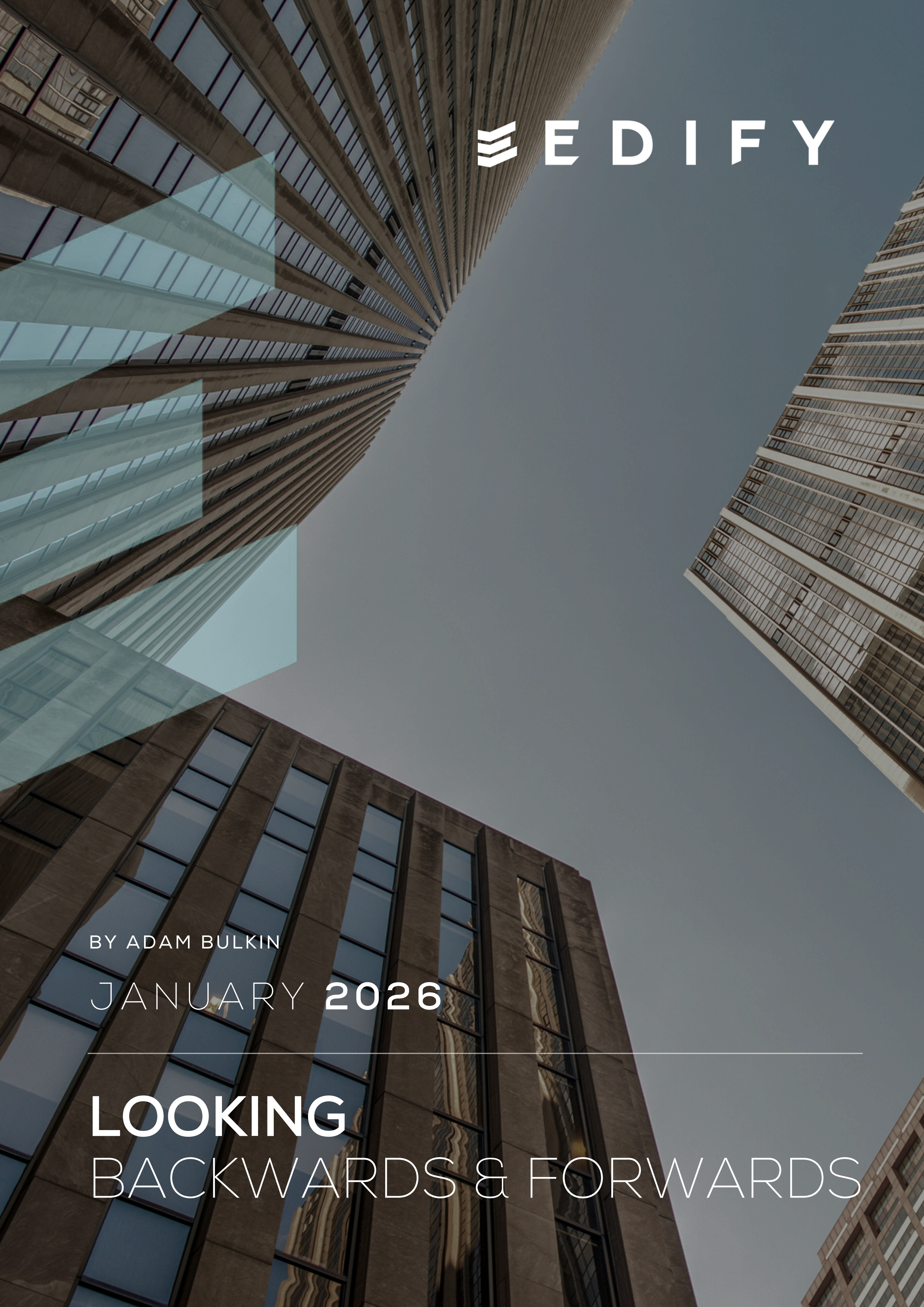

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LOOKING
BACKWARDS & FORWARDS

Global Macroeconomic Outlook: Looking backwards and forwards

There are always unexpected events and bouts of turbulence in financial markets. In 2025, the cause was predominantly geopolitical in nature, as we witnessed a more violent, fractious and fragmented world, and the consequences thereof.

More specifically, over the last number of years, certain regional powers have increasingly encroached on the sovereignty of their neighbours, and other countries or geopolitical blocs have reacted accordingly, setting off chains of events which continue to reverberate.

The freezing of Russia's foreign currency reserves by the US and the Eurozone, in response to Russia's invasion of Ukraine (the so-called "weaponization" of the dollar), was an important reason that many central banks, including those of Russia, China and Poland, decided to increase their gold holdings significantly, away from the dollar. This was one of the major factors driving the price of physical gold to all-time highs in 2025.

It has also led to an intention in Europe to greatly increase investment in defence capability and to re-think energy production, since countries like Germany can no longer rely on cheap fossil fuel energy from Russia.

In the Middle East, longstanding geopolitical tensions between Iran with its proxies on one side and Israel on the other were exacerbated by what looked like progress towards normalization of relations between Israel and several Sunni Arab states. This environment contributed to a sharp escalation in hostilities involving Israel and a range of actors aligned with Iran, including Hamas, Hezbollah, and the Houthis. The resulting conflict over 2024 and 2025 marked a significant deterioration in regional stability and, notably, included direct military exchanges between Iran and Israel for the first time. Contributing to the uncertainty was the final collapse of the Assad regime and the subsequent multi-faction scramble for power in Syria. These developments heightened global risk aversion and were an additional driver of demand for traditional safe-haven assets such as gold.

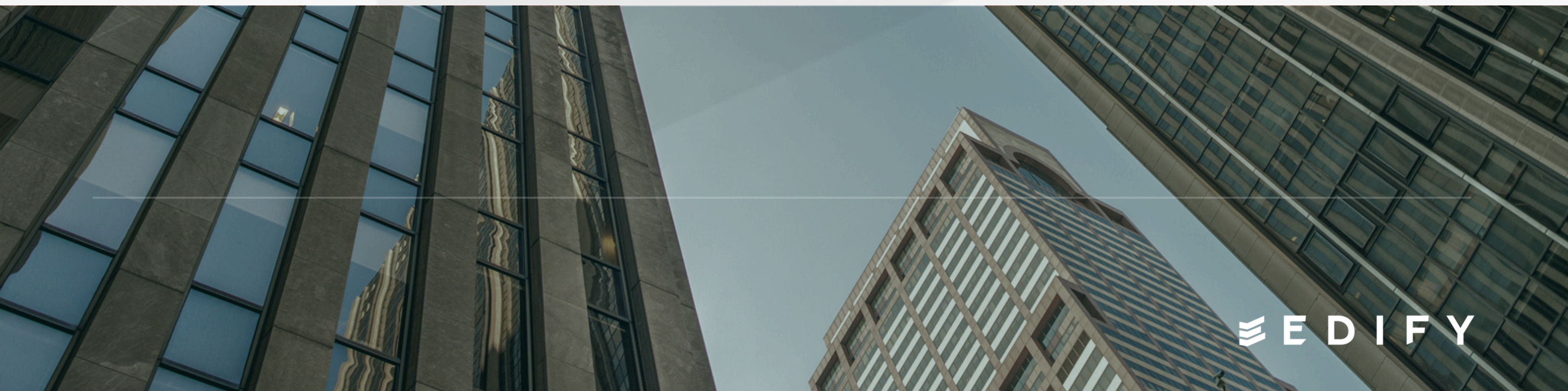
The US sees, in China, an increasingly powerful and assertive rival growing its global influence and presence. This has exacerbated concerns that were thrown into stark relief during the global Covid epidemic, when the fragility and vulnerability of the supply chains of critical goods and resources to Western countries was demonstrated, along with the decrease in industrial capacity in the US.

The imposition of tariffs by the US in 2025 is therefore to be understood, at least in part, as an effort by the current US administration to address these weaknesses and improve industrial manufacturing capacity in the US. Technological rivalry, particularly as it relates to semi-conductors and artificial intelligence (AI) as a broad theme, should also be viewed through this lens.

Indeed, AI as a revolutionary step-change in the way in which technology integrates with and influences almost every human activity and way of doing business was also an incredibly important theme of 2025. The massive investment and capital expenditure in the sector has led to an increasingly bifurcated, concentrated and top-heavy equity market in the US, with the seven major Technology-driven or enabled companies of Apple, Microsoft, Alphabet (Google), Amazon, Nvidia, Meta Platforms (Facebook), and Tesla (the "Magnificent 7") now consisting approximately 34% of the S&P 500's total market capitalization and about 42% of the index's total return year-to-date. Without this phenomenon, both US economic growth and US equity market returns would have been significantly lower.

Semi-conductor technology specifically and AI in general has been a key battle-ground in the rivalry between the US and China, with the US trying to reduce China's access to the newest technology and improve its capacity to produce semi-conductors away from Taiwan. This is in order to reduce reliance on the island, which produces most advanced chips, but faces the risk of being subjected by China, through force or otherwise. Initiatives like the CHIPS Act attempt to boost domestic US capacity and there is a clear strategic initiative to build onshore capability.

In response to US tariffs aimed at China, Beijing, in turn, briefly withheld from the US the minerals – the rare earths - necessary for semi-conductor and other technology hardware production. The US and China have now reached an uneasy resolution and trade tensions have been relaxed. However, there is no long-term solution to the rivalry between the two major super-powers of the world, and we anticipate a constant strain between Washington and Beijing, which may wax and wane, but will continue to pose a risk.



Overall, markets initially reacted very sharply to the tariff announcements. Starting on April 2, 2025, when Trump announced the sweeping tariffs impacting nearly all sectors of the US economy, global stock markets crashed close to 20%. However, still in April, there was a significant moderation of the overall implemented tariffs. In addition, earnings and profit margins of the US Technology companies in general and the Magnificent 7 in particular, have been remarkably robust. The result was a subsequent rally in US equities. The S&P 500 surged over 35% from its lows of 2025, marking one of the strongest six-month rallies since 1950 and nearly doubling gains from the bull run that began in late 2022.

A final but critical economic phenomenon related to the tariffs was the dramatic weakening of the US dollar in 2025, which dropped about 11% in the first half of this year, the biggest decline in more than 50 years, ending a 15-year bull cycle. The main factor which caused the dollar's decline early in the year was the commencement of the tariff announcements, which caused expectation of higher inflation and lower real (i.e. inflation adjusted) growth in the US. Consequently, investors anticipated more Federal Reserve rate cuts. These forces acted to weaken the dollar. In the second half, stable inflation and Fed rate cut expectations kept the dollar relatively rangebound.

The weaker USD was one of the factors leading to strong equity returns in both European and Emerging Markets (EM), along with compelling relative valuations, supportive monetary and fiscal policies, and specific structural growth factors within each region.

In Europe, equities started the year trading at a significant discount compared to their US peers. This valuation gap, significantly wider than historical averages, attracted investors seeking better value, allowing for a valuation-driven rally. In addition, the European Central Bank (ECB) was expected to cut interest rates multiple times in 2025, in contrast to a slower pace of cuts by the US Federal Reserve. Capital spending in various important sectors such as defence and energy (referred to above) was also a contributing factor.

The weaker US Dollar was also a significant tailwind for EM equities. A weaker dollar reduces the debt servicing costs for EM countries with US-denominated debt and encourages capital inflows into the asset class. This was coupled with attractive valuations and the global AI boom. A large portion of the EM market capitalization (35-40%) is now technology-related, and the recovery of the semiconductor cycle provided strong returns for markets like South Korea and Taiwan.

These then have been some of the major themes we have experienced over 2025 globally, which have been reflected clearly in the performance of stock and commodity prices

- An extremely strong gold price of approximately 65% year-to-date (YTD);

- US equity market which has rallied after a steep fall in the first half of 2025, with the S&P 500 returning about 18% YTD and the technology-dominated Nasdaq providing a 21% return YTD;

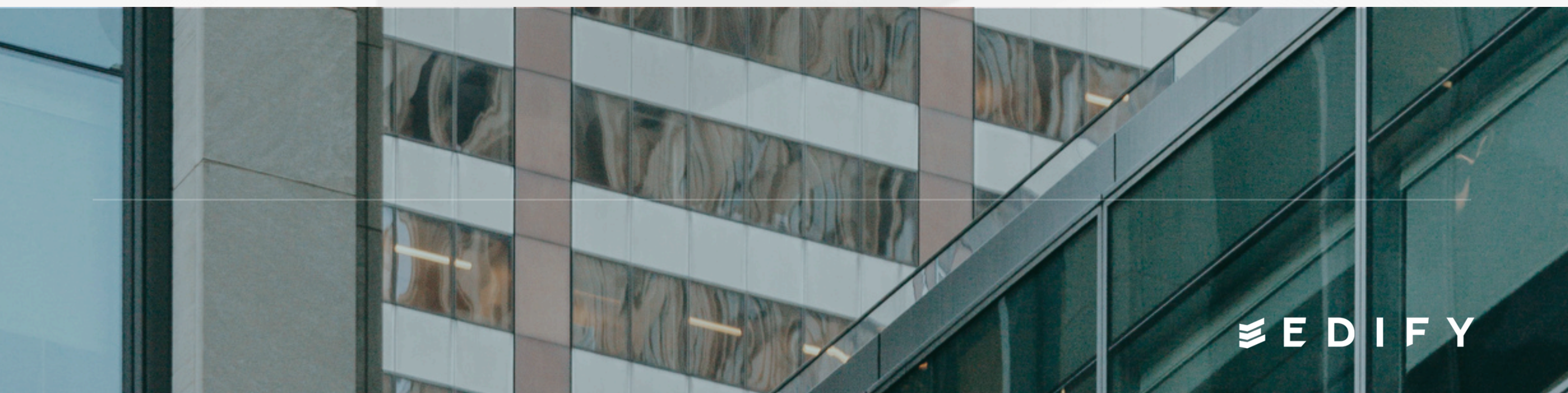
- In Europe, the MSCI Europe ex-UK Index producing a performance of 36% YTD, with specific countries generating stellar returns, such as Germany, up 39%, Italy up 56% and Spain a massive 69%;

- Emerging Market equities outperforming developed market equities - the MSCI EM has risen almost 34% YTD, with Hong Kong-listed Chinese shares (the Hang Seng) up about 32% YTD and South Korean stocks (the KOSPI) up 98% YTD.

Looking forward now to 2026, the themes we have outlined above are long-term in nature, and we expect them to play out over many years. However, shorter term, there are key considerations informing our view for the year.

In the US, risks are finely balanced. The core inflation rate was 2.6% year-over-year in November 2025, which is slightly above target, while the projected 2025 annual GDP growth rate is around 2.0%.

At the same time, employment is soft, wage growth is low, and the consumer is under pressure, especially in lower income households. Student loan repayments are recommencing (having been suspended under President Biden's administration) and the overall consumer debt profile is deteriorating. In 2025, without AI capex, US GDP growth would have been meaningfully lower. Furthermore, the AI revolution, while increasing productivity and profit margins, has so far not led to increased employment. On the contrary, AI is resulting in a decrease of jobs, not an increase, and threatens skilled workers. What we are currently seeing, therefore, is "jobless growth" in a very narrow part of the economy.



Furthermore, the valuations of technology-focused companies benefiting from these conditions fully reflect their strong earnings and margins and are a massive portion of the market cap of overall equity indices. These stocks are trading at heady multiples, and any disappointment in earnings or margins is likely to be severely punished as investors sell aggressively. Given how large these shares are in the various indices, the likelihood is that, if these stocks do come crashing down, they will bring the broad equity market down with them.

In short, the US is experiencing moderate, but still positive growth; inflation somewhat above target; and worrying stock market concentration in expensive stocks.

However, there are some very important positives too.

The consensus is still for GDP growth in 2026, even if it may be moderate. There is also the potential for growth to surprise on the upside, as AI's productivity boost continues to extend into the broader economy. The fiscal stimulus from the One Big Beautiful Bill Act (OBBBA) is also expected to boost growth.

Our inflation call for 2026 is that inflation will not remain above the Fed's target. The pressure on the consumer, slowing employment and low wage growth are all factors acting against inflation, and the once-off effects of the tariffs will pass. We think that inflation will remain under control and that the US Federal Reserve will have the space to lower rates, especially if unemployment increases more than expected. Ironically, a low discount rate, as the risk-free rate decreases, will be positive for Growth stock valuations, helping to prop up the Magnificent 7 and other Technology-focused stocks. Importantly, all these drivers will take some time to manifest themselves in market conditions.

If our inflation and growth assessment for the US is correct, we expect the US dollar to continue the range-bound pattern we saw in the latter half of 2025, perhaps with a weakening bias. We also think that gold is due a period of consolidation, given its parabolic rise of 2025.

China has largely achieved its growth projections and is focused on improving domestic consumption, as well as developing its own technological self-reliance and resilience to US pressure. Chinese technology companies have experienced strong earnings growth, but are trading at significantly lower multiples than US companies of a similar nature. The housing market has remained under pressure, but there are indications that it is starting to bottom out. Therefore, while the government has refrained from wholesale fiscal stimulus, we think that the Chinese equity market still offers opportunity.

Other Emerging Markets are trading at relatively attractive valuations.

Therefore, in summary, our outlook for 2026 is as follows

- We are neutral to slightly underweight the US equity market, but will continuously reassess this position as we monitor whether the forces we alluded to (lower inflation and fiscal stimulus) have effect. We concede that the valuations and concentration of Technology-focused companies give us pause.

- We are neutral US bonds. We think that, as inflation falls, the Fed will lower rates, resulting in a steeper curve, but one that is still at an overall lower level. However, bonds are not at attractive valuations.

- We are slightly overweight EM equities on valuation grounds and a range-bound US dollar.

- We are still holders of gold, but at a slightly underweight allocation.

An important aspect to highlight is that we would look to buy into weakness, since we think that this is more likely to be driven by a disappointment in high expectations as opposed to a severe economic recession, or inflation that would cause central banks, especially the US Federal Reserve, to tighten monetary conditions too much.

We therefore remain somewhat cautious and far from exuberant, but still close to fully-invested in risk assets.

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FOR OUR INVESTOR LETTER

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