Investment Policy

April 2025

BOREAL
CAPITAL MANAGEMENT

Our market view in a nutshell – April 2025

- **"Liberation Day" – April 2** What was meant to liberate the U.S. from unfair terms of trade instead unleashed market demons. Equity markets suffered their sharpest two-day decline since the onset of COVID-19 and the 2008 crisis, reacting to the breadth and sweeping reach of the measures.

- **Tariffs Beyond Expectations** While a 10% baseline tariff might have been digested by markets, the real shock came from the reciprocal tariffs. These lifted the average effective tariff rate to 28%, the highest since 1901—catching both investors and trading partners off guard with their scope and rationale.

- **Let´s talk** There is a silver lining: the aggressive stance came with an implicit invitation to negotiate—likely not part of the original strategy, but prompted by the market's reaction. A 90-day moratorium followed, creating a narrow window for diplomacy and adjustment. But time is short. Uncertainty is toxic—not only for markets but for corporations, which urgently need clarity to adapt business models under the new regime. The "back-of-the-envelope" formula used to calculate reciprocal tariffs—factoring in quotas, subsidies, and other non-tariff barriers—grants broad discretion to offer concessions and carve-outs. This opens the door to politically marketable exemptions. We expect the newsflow to turn increasingly positive.

- **Signal vs. Noise** Media coverage has amplified a sense of imminent disaster. CEOs, political adversaries, and commentators have added fuel—but the fundamentals suggest a more nuanced picture. Consumer and investor confidence has weakened, yet current data does not support the view that a recession is underway. Pressure on prices and consumption is real in the near term, but the effects on employment and core inflation remain unclear.

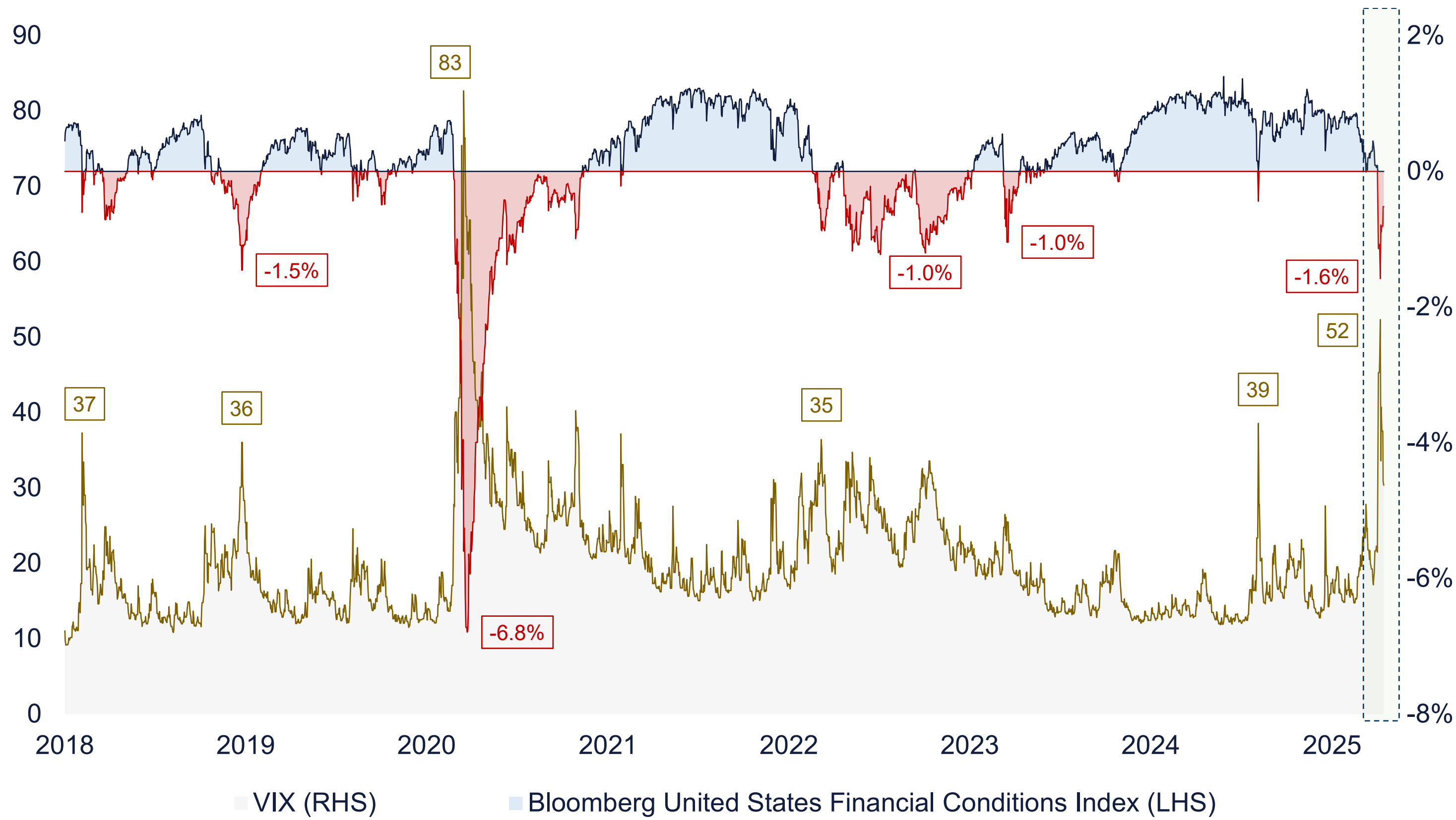
- **Stay Calm and Diversified** The Fed has remained largely silent—deliberately. Inflation continues to improve, while signs of economic weakness are mostly found in soft indicators. Financial conditions have tightened, but systemic stress remains limited. Unless hard data worsens, the Fed is likely to hold—but should conditions deteriorate further, aggressive rate cuts may be underway. For investors, this is not a time for panic selling or aggressive repositioning. Valuations have improved meaningfully, but earnings may come under pressure. Stay long-term focused and well-diversified.

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	+	Valuations have kept worsening since stock prices have been rising faster than earnings. With interest rates expected to remain higher for longer, we renew our preference for stocks that can reliably grow their earnings.
	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 and a stronger US dollar 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	Multi-Strategy 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

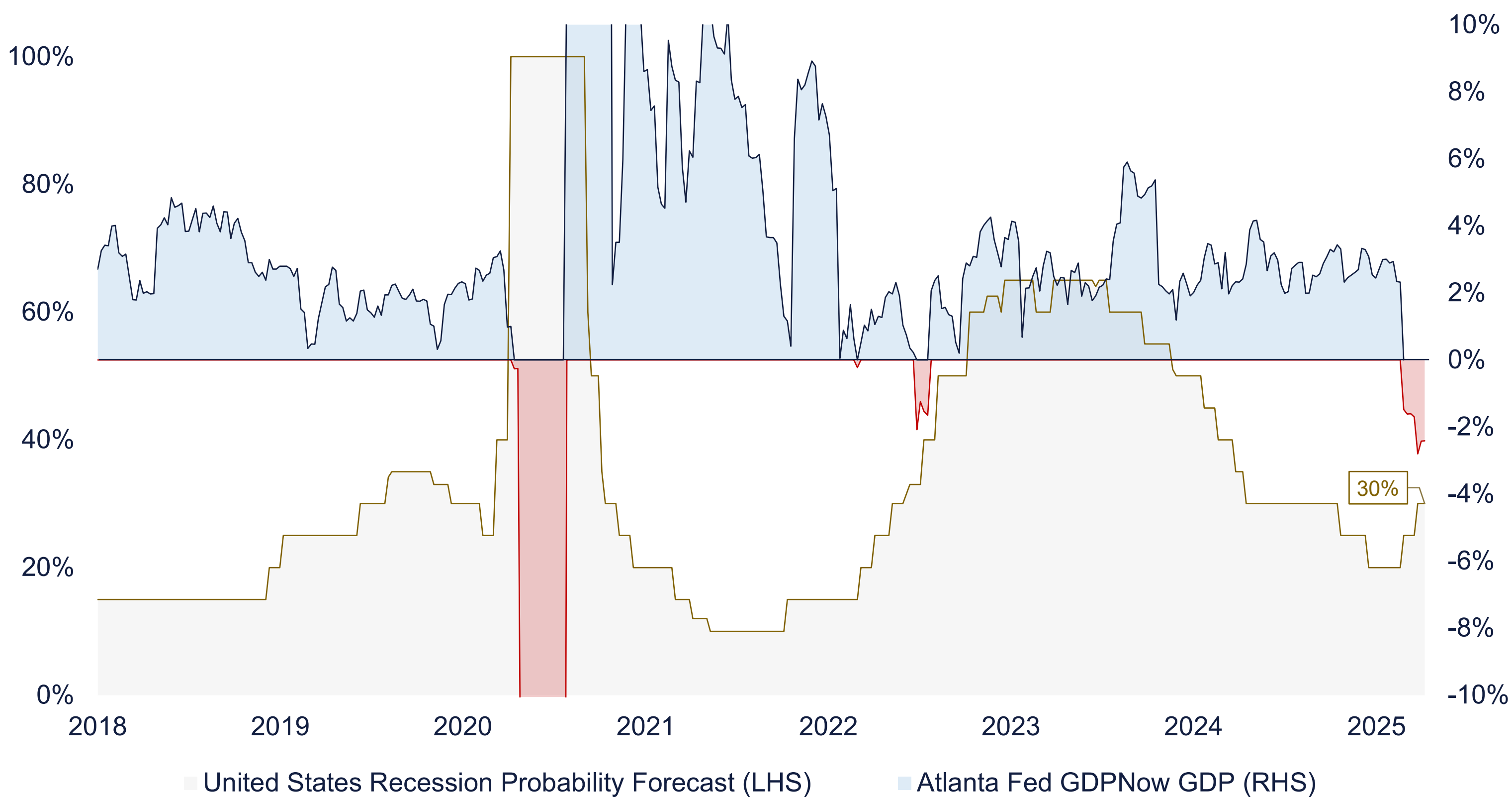
Freeing market demons



- **"Liberation Day"** likely didn't unfold as planned. The announcement unleashed **sudden market turmoil**, with **volatility spiking to levels** seen only during major crises such as the Global Financial Crisis and the COVID-19 shock.
- **Financial conditions**, which had remained broadly supportive, **deteriorated rapidly**—with credit **spreads widening sharply**, signaling growing concern around risk and liquidity.

Source: Bloomberg

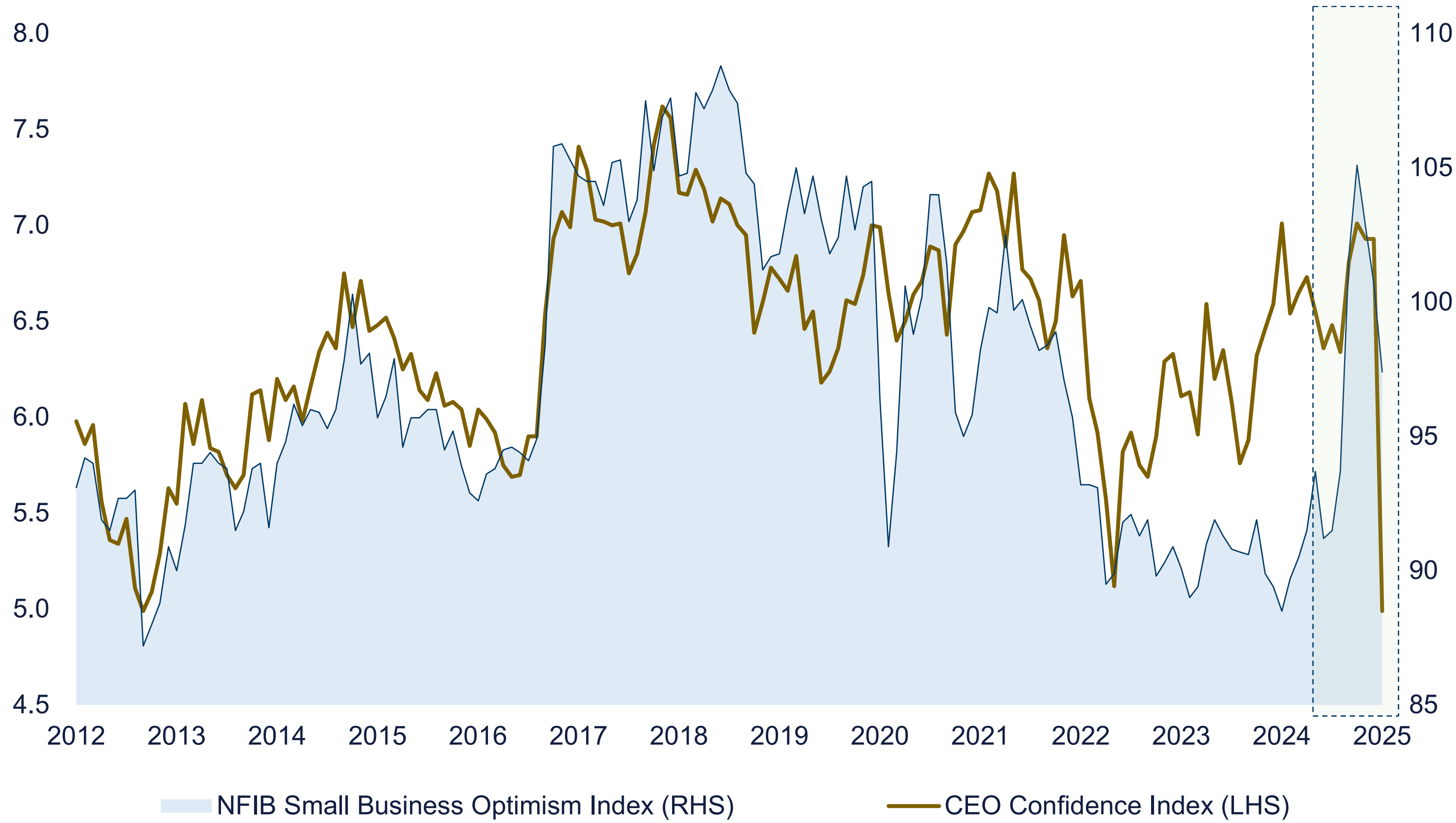
Too early to call a recession



- Although some **“soft” indicators have weakened**, and economic logic suggests the new **tariffs will weigh on consumption and prices**, it is **too early to call a recession**.
- As seen during the post-pandemic reopening, we may experience **unusual volatility in macroeconomic data.** This is partly due to **front-loaded purchases** by consumers and corporations anticipating tariff-related price increases—distorting near-term indicators without signaling a structural downturn.

Source: Bloomberg

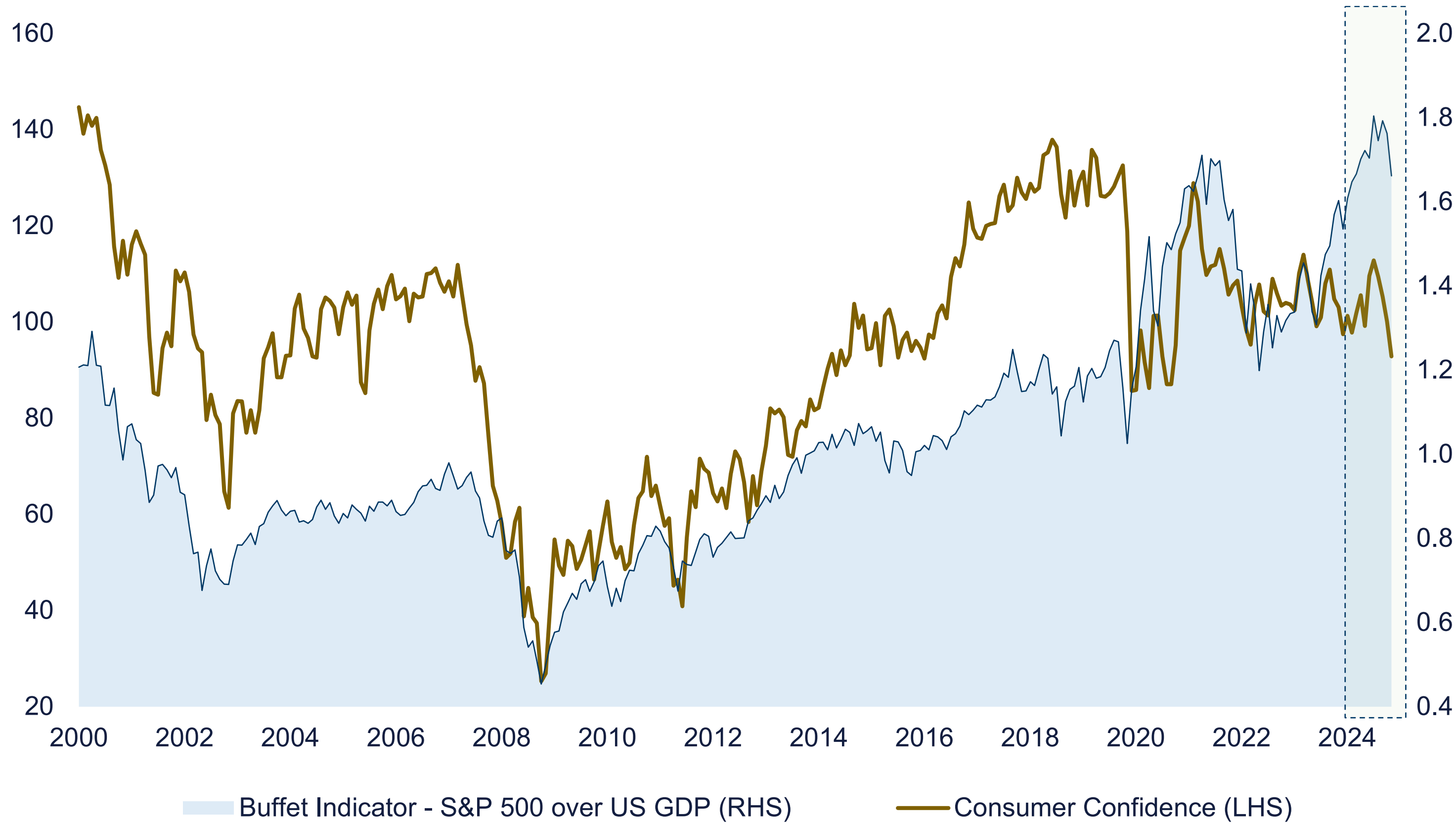
Confidence blow



- The new tariffs are creating **substantial disruption** for businesses, forcing a reassessment of **supply chains, pricing strategies, and capital allocation**.
- With current rates widely expected to be **renegotiated or partially reversed**, the environment is marked by **heightened uncertainty**, which is taking a visible toll on **business confidence and investment intentions**.

Source: Bloomberg

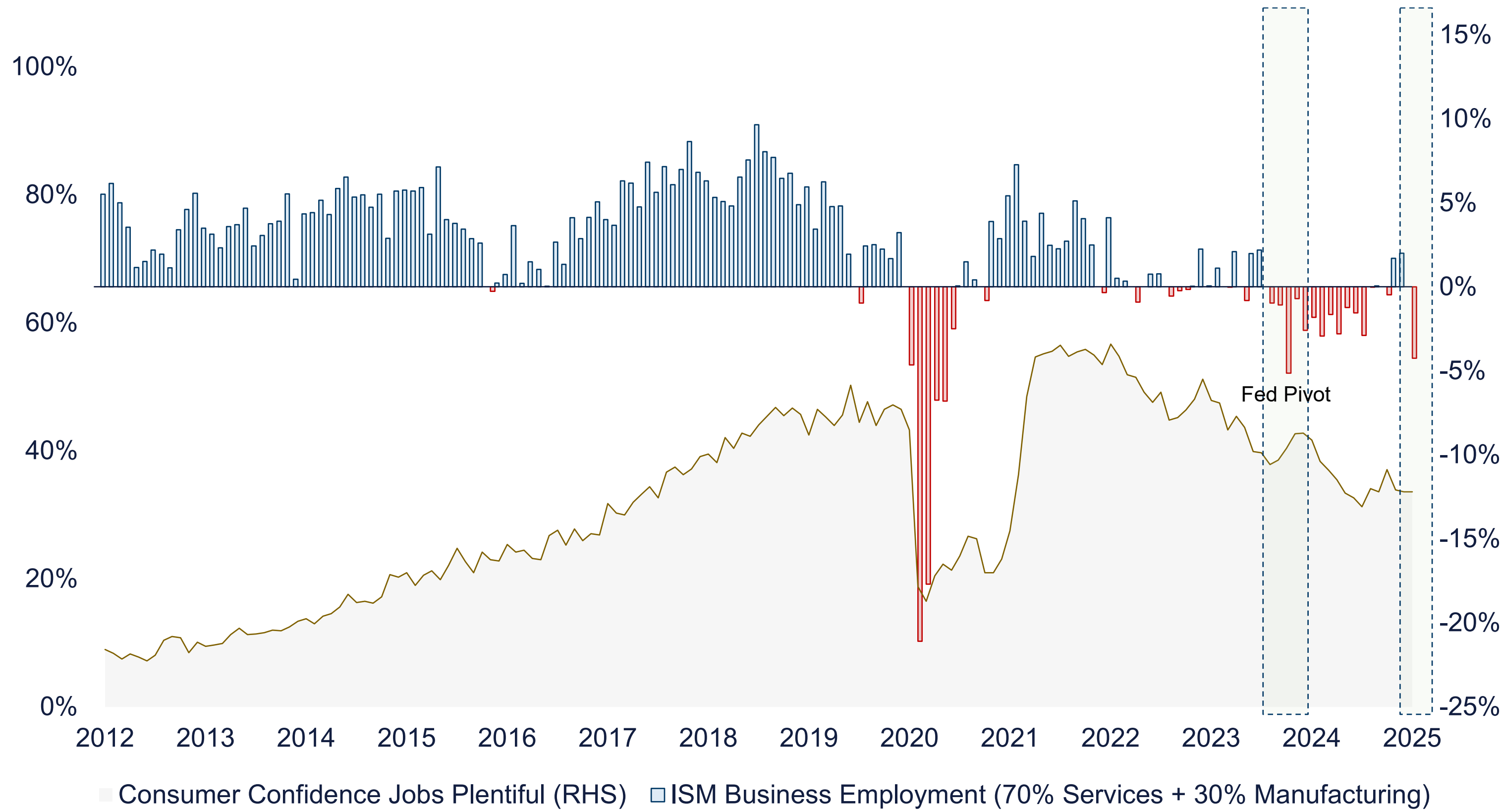
A familiar disconnect



- **Consumer confidence indicators have declined sharply**, raising concerns about potential weakness in spending.
- However, past episodes show that **softening expectations have not consistently translated into reduced consumption**. Despite the market correction, **household wealth remains elevated**, providing a cushion that continues to **support consumer spending** in the short term.

Source: Bloomberg

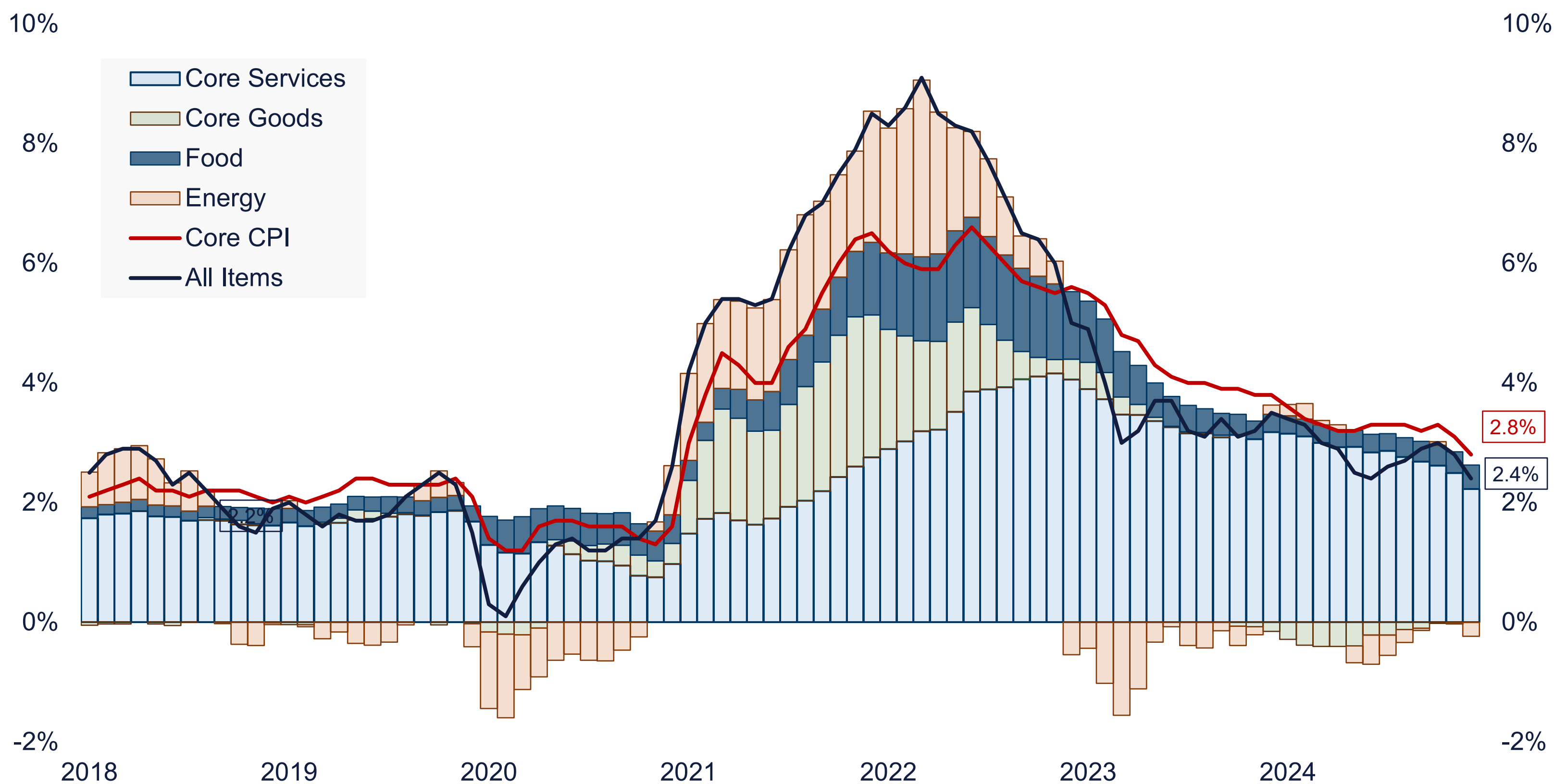
Gently cooling



- The labor market remains resilient, but signs of **gradual cooling** are emerging. Job creation continues at a solid pace, yet **hiring intentions** are beginning to soften.
- As with other soft indicators, these signals have not yet translated into a **meaningful deterioration** in hard data. For now, the **labor market continues to support the broader economy**.

Source: Bloomberg

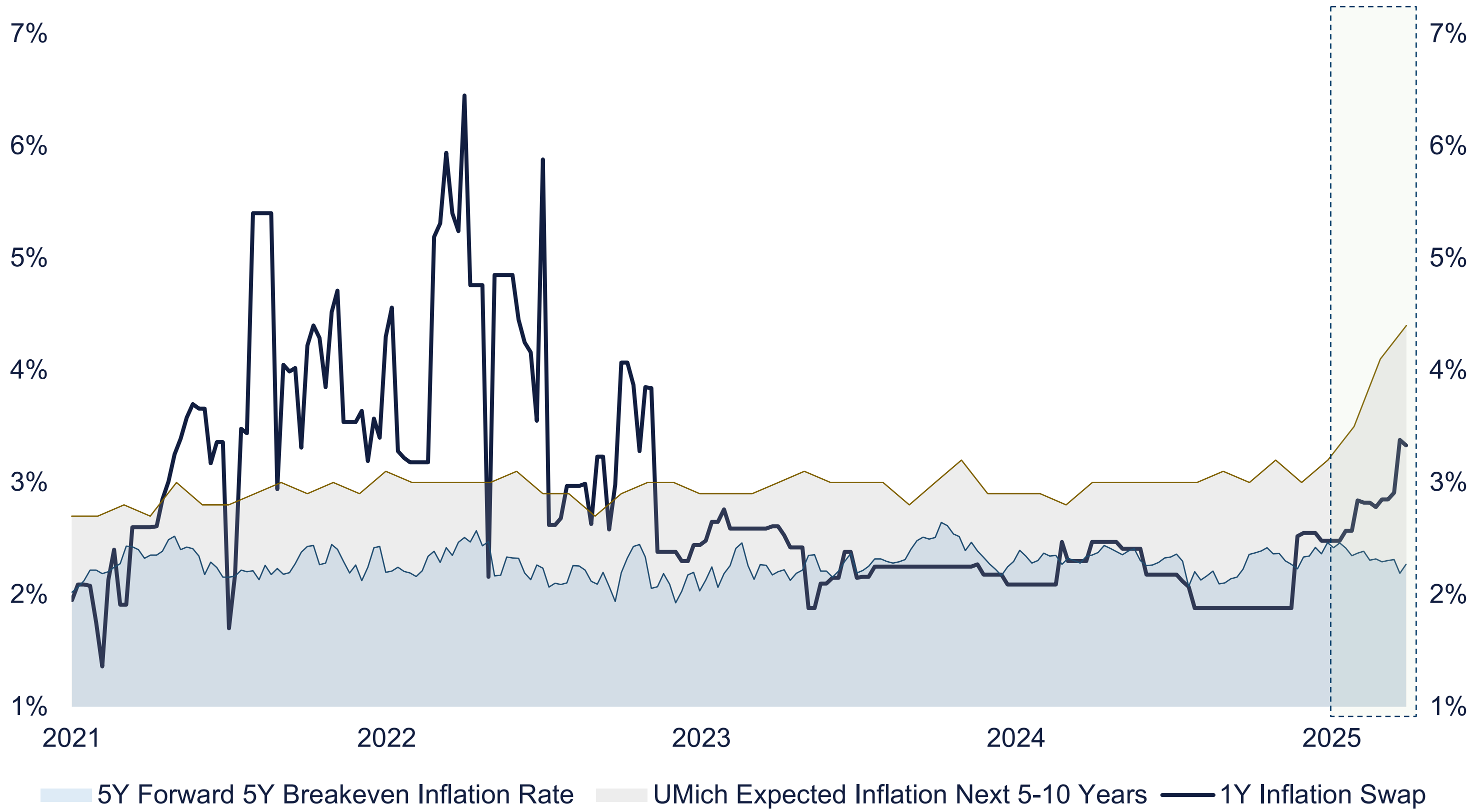
A new price shock?



- After a difficult disinflation process, prices were finally coming under control. However, the prospect of **steep new tariffs** now threatens to **reignite goods inflation**, with potential knock-on effects on services.
- The impact may not be immediate, but **pricing pressures could re-emerge**, particularly if companies attempt to pass on costs in a tight supply environment.

Source: Bloomberg

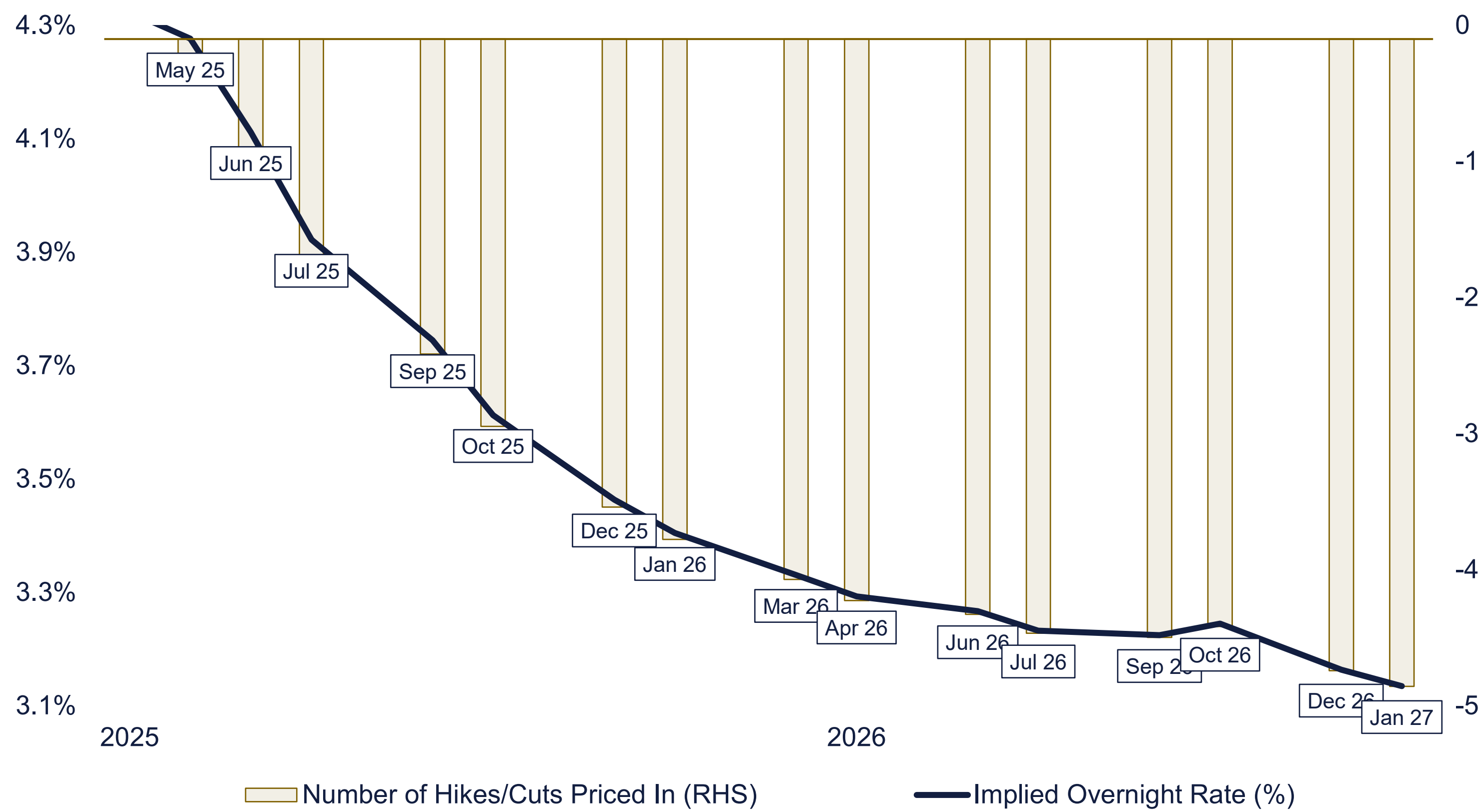
What if it sticks?



- Tariffs represent a **one-time price shock**, but they carry the risk of triggering **second-round effects**—especially if businesses raise prices in anticipation of further cost increases.
- Inflation is not only driven by input prices, but also by **expectations**. Following two years of elevated inflation, **consumers appear to be internalizing a more persistent impact on prices**. Markets, in contrast, continue to price in only a **transitory effect**, setting the stage for potential misalignment between expectations and reality.

Source: Bloomberg

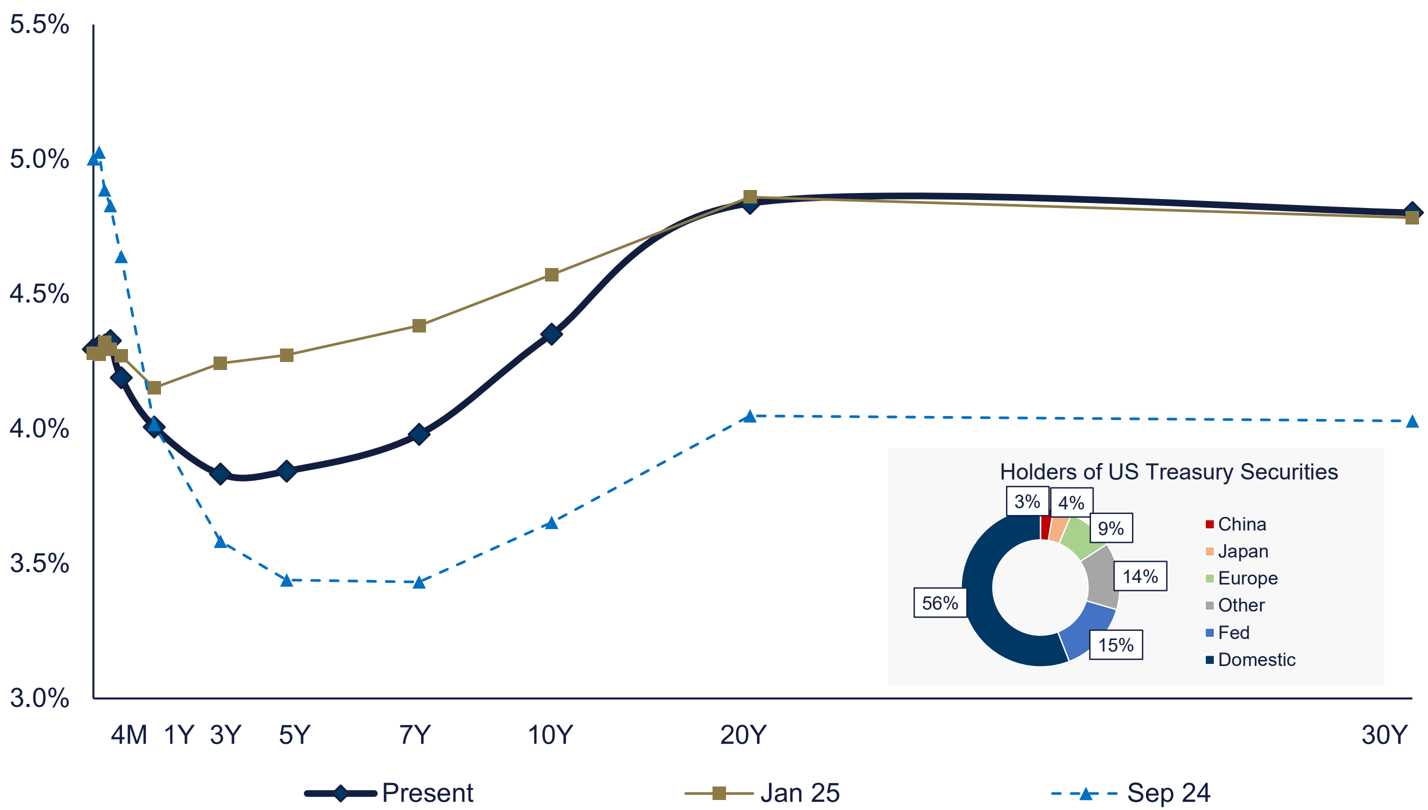
On hold, for now



- The Federal Reserve appears to be in **no hurry to cut interest rates**. As long as clear **signs of economic slowdown are absent**, the Fed is prioritizing **price stability over growth**.
- However, the situation remains fluid. Should conditions shift materially, the Fed may choose to **front-load rate cuts**, in line with the guidance it has already provided.

Source: Bloomberg

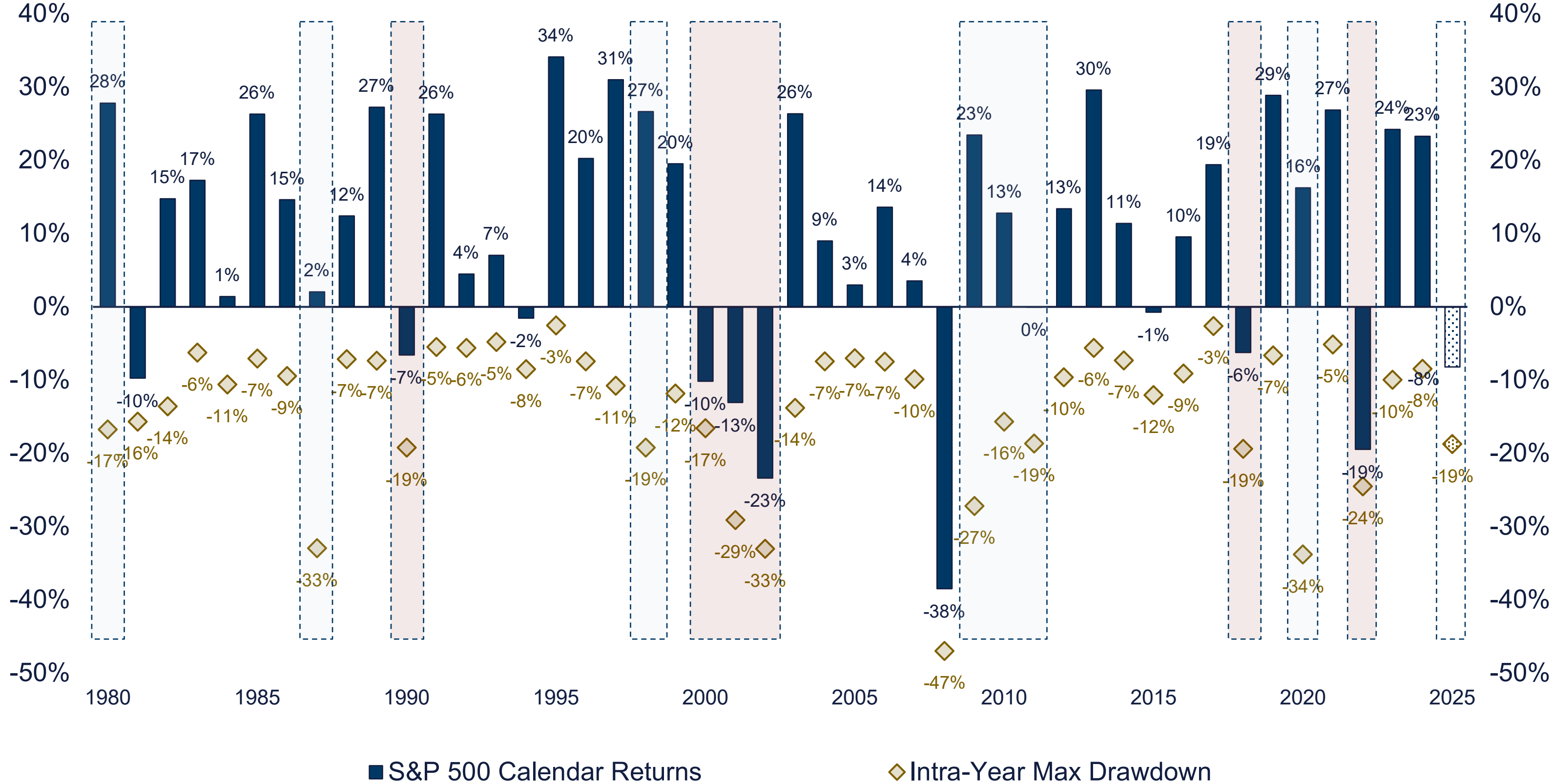
Safe haven, under pressure



- Recent movements in the U.S. Treasury market, where bonds fell in tandem with equities, have raised **speculation about investor flight** from both Treasuries and the U.S. dollar.
- While some outflows reflect **disapproval of the new administration's policies**, much of the move appears to be driven by **position unwinding and deleveraging by large investors**, rather than a broad **reassessment of U.S. creditworthiness**.

Source: Bloomberg

When discipline matters most



- Periods of heightened volatility often test investors' resolve, but **reactionary decisions rarely pay off**. Despite the recent correction, **valuation adjustments have created selective opportunities**. At the same time, earnings expectations may still be too optimistic if tariffs begin to weigh on corporate margins.
- In this context, it remains prudent to **stay long-term focused, avoid extreme repositioning, and maintain broad diversification.**

Source: Bloomberg

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	25%	35% (-10%)	40% (+10%)

Short-term catalyzers

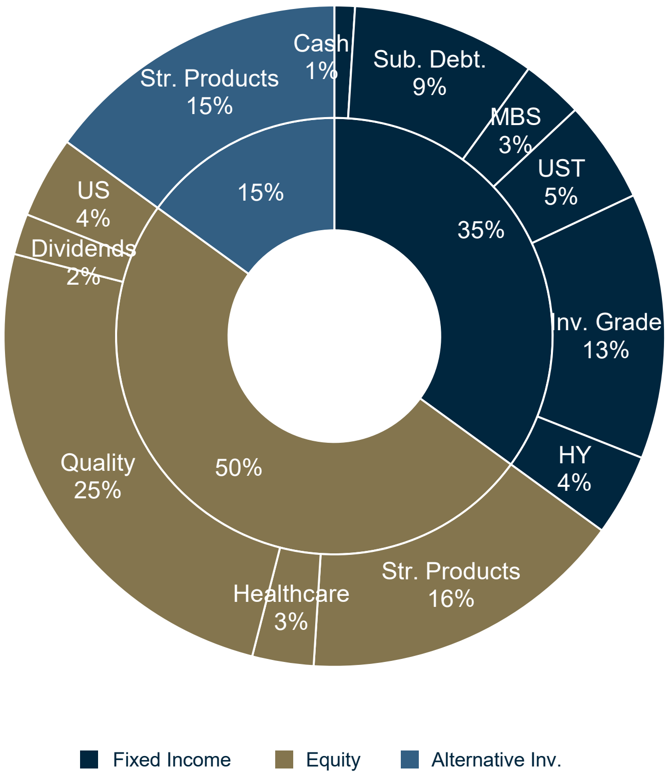
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

Other risks

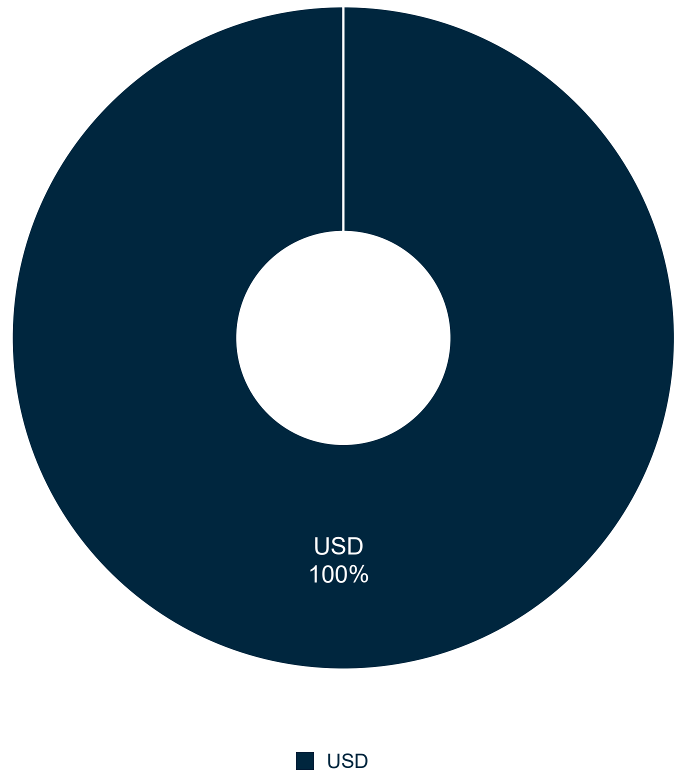
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

Boreal Balanced Portfolio USD

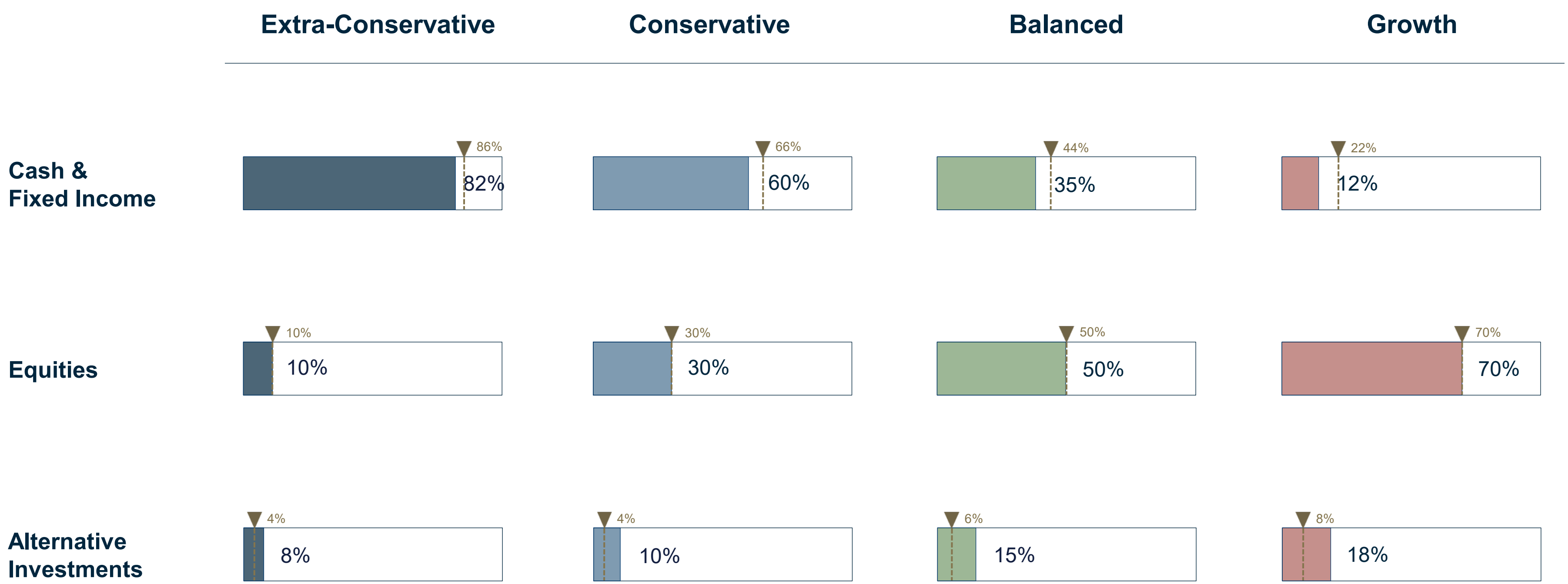
Asset Allocation



Currency Allocation

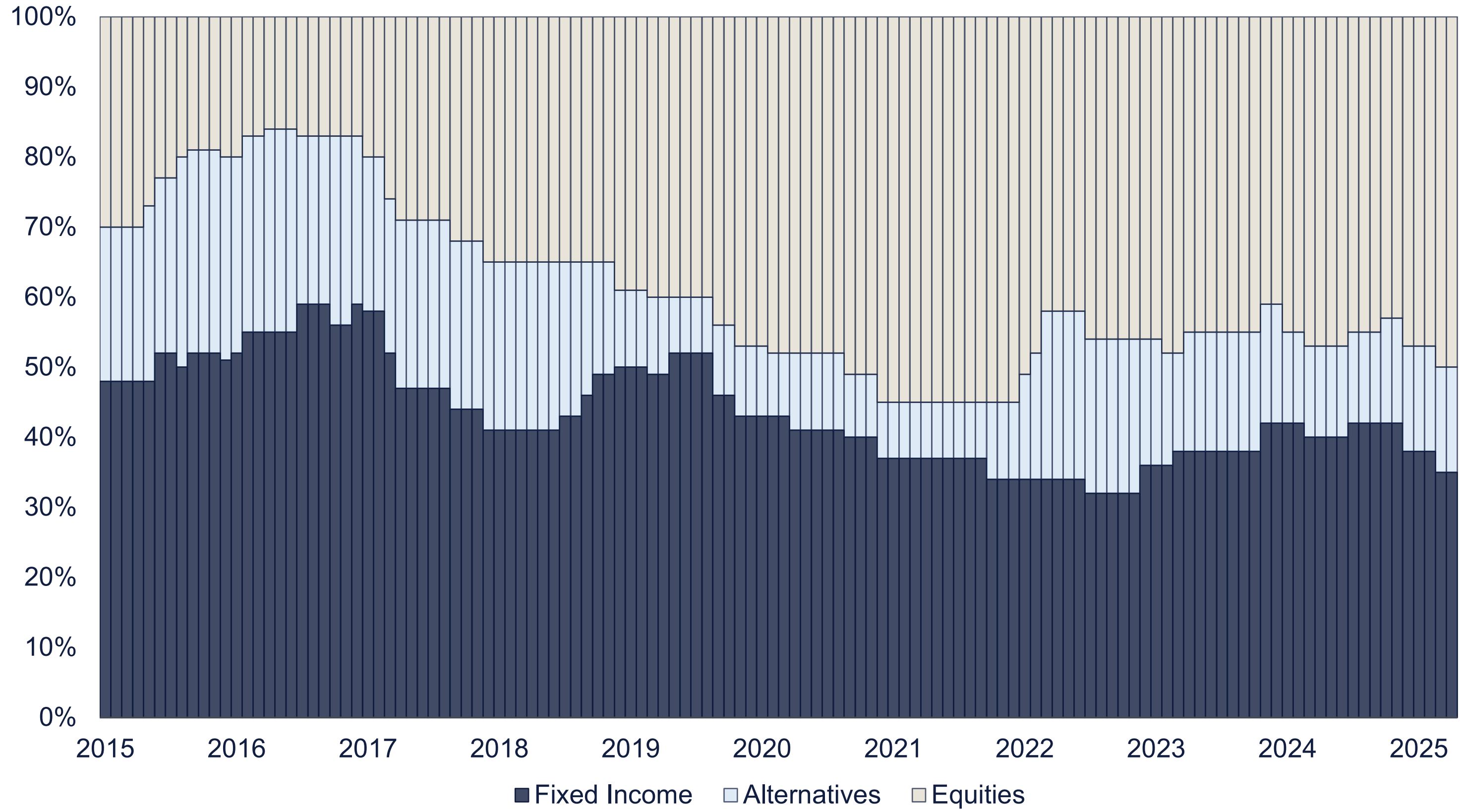


Boreal Investment Profiles



▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution



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