Mt Fort Advisers
- Investment Strategy Update -

July 10th, 2025

Dear All,

We are delighted to publish our latest investment strategy update encompassing our views for the second half of 2025 with the valuable insight of our independent macro strategist, Prof. Michel Girardin, from the University of Geneva. You can access the detailed report using the following **link**.

We concluded our H1 2025 investment strategy outlook with the following comment: "**Staying Prepared Amid Uncertainty.** With numerous key variables at play and a significant leadership change in the U.S., financial market outcomes for 2025 could vary considerably."

In retrospect, the first half of 2025 witnessed significant market **volatility**, driven by the implementation of **Trumponomics II**, particularly Mr. Trump's **tariff policy** on imported goods, which escalated into a trade war with China. In retaliation, China increased customs duties and revised export policies on sensitive materials, such as rare earths. Following Mr. Trump's tariff announcement on April 2, 2025 (dubbed "**Liberation Day**"), the U.S. equity market correction intensified. The S&P 500 recorded the fifth-worst two-day decline in 75 years, plunging -10.5% and erasing over $6.6 trillion in market value. Peak-to-trough, the index corrected sharply by -21%. Notably, the market staged an extraordinary **intramonth reversal**, closing April with a loss of less than -1%, an event occurring only five times since 1927. By the end of H1, the S&P 500 had fully recovered, finishing in positive territory (+5.5%).

Contrastingly, **European** (Spain, Germany, Italy) and **Chinese equities decoupled** positively from U.S. markets. The IBEX 35 (Spain) and Hang Seng (Hong Kong) both recorded strong gains up to 20%. European markets benefited from several catalysts: 1) more dovish ECB monetary policy versus unchanged Fed policy, 2) more attractive valuations at year-start (e.g., Euro Stoxx 50 was significantly cheaper than the S&P 500 on forward PE, 14x vs 25x), 3) greater exposure to cyclical sectors benefiting from China's recovery (financials, industrials, automotive), and 4) Euro appreciation versus USD attracting capital flows. Similarly, Chinese equities rallied on improving economic conditions, supported by robust fiscal and monetary stimulus, including a 300-billion-yuan ($41.47 bn) consumption package. Attractive valuations further underpinned gains, with the Hang Seng trading at low forward PE multiples around 11x.

Despite the equity rebound, the **U.S. dollar** experienced significant depreciation. The USD Index fell nearly 10%, while the euro gained approximately 12% against the USD. Concerns surrounding Trump's aggressive tariff policies and the potential fiscal implications of the "**One Big Beautiful Bill Act**" (projected to add circa $3 trillion to the U.S. deficit over ten years) triggered doubts about the dollar's strength and hegemony. Investors sought alternatives, fuelling demand for European equities, gold (+26%), and even more speculative assets such as Bitcoin (+10%).

Long-term **U.S. bond yields** remained elevated, reflecting fiscal concerns. The U.S. 30-year yield hovered around 5%, and the 10-year at 4.5%, driven by a ballooning debt burden ($37 trillion, ~120% of GDP) and fiscal deficits nearing $2 trillion (~6.4% of GDP). Moody's downgraded U.S. sovereign debt from Aaa to Aa1 on May 16, 2025, joining the other agencies in lowering its top-tier rating. The **divergence** between U.S. and EU yields widened notably, as highlighted by Prof. Girardin in his slide page 9, with the German 10-year yield declining to approximately 2.5%, aided by ECB rate cuts totalling 75bps over three instances during H1.

Federal Reserve Chairman Powell maintained a stable **monetary policy** stance (Fed funds rate unchanged at 4.5%), resisting considerable political pressure for more aggressive easing from Mr Trump. **Inflation** trends improved gradually, with CPI declining to 2.4% and Core CPI to 2.8%, nearing but not yet achieving the 2% FED target. The **labour market** remained resilient but showed initial signs of cooling; nonfarm payroll growth slowed (+139,000 jobs in May vs. a 12-month average of 149,000), while wage growth remained firm at +3.9% YoY. Economists widely attribute some of the labour market distortions to Trump's restrictive immigration policies.

Despite tense **geopolitical** developments (Ukraine conflict, Gaza, Taiwan, Iran-Israel), financial markets displayed notable resilience, apart from temporary oil price volatility tied to potential Iranian threats to the Strait of Hormuz.

Looking forward to **H2 2025**, Mr. Trump's policy initiatives, including the Senate's vote on the "One Big Beautiful Bill Act" and tariff deadlines (recently pushed back from July 9th to August 1st), will likely dominate the short-term agenda. Facing slowing growth and declining consumer confidence (down over 20%, signalling potential recession risk), Mr. Trump may pivot from tariffs towards **pro-growth policies**, primarily tax cuts and deregulation, hoping to bolster fiscal revenues. With **US midterm elections** approaching fast in November 2026, Mr Trump needs to show positive economic developments to his electoral base.
Mr Trump is hoping to generate stronger economic growth, and therefore additional fiscal revenues, not only thanks to higher tariffs, but essentially by lowering taxes and regulations, while at the same time increasing government spending in defence and infrastructure, mitigated by cuts in various social and healthcare areas. Economists remain sceptical that these policies will meaningfully **reduce deficits**, likely increasing them by approximately $3 trillion over ten years. Treasury Secretary Scott Bessent advocates for a sustainable deficit target of around 3% of GDP, significantly below the current trajectory (above 6%). To put things in perspective, if the US imposed a 10% tariff across the board, that would generate about $360bn of revenues (almost twice the

past inflows) to be compared to the total income tax of circa $550bn. A US fiscal deficit much above 6% of GDP is **not sustainable** in the long run, especially if interest rates were to move higher. A **financial crisis** could eventually materialise if U.S. fiscal profligacy remains unchecked, potentially triggering a more pronounced flight from the U.S. dollar. This risk does not appear imminent, though, primarily due to the absence of credible alternatives. AAA-rated sovereigns currently account for only about 10% of the global investment-grade sovereign bond index, while the U.S. represents nearly 46%. There is simply no viable substitute capable of filling this gap, estimated at approximately $25 trillion.

Given these factors, we anticipate continued longer-term pressure on the **USD**, reinforcing investor **diversification** into alternatives such as gold, European-Japanese-Chinese equities, as well as EM equities, in local currencies, and Bitcoin for speculative portfolios. We could see a shorter-term bounce due to the current oversold conditions and a possibly muted FED. Elevated **term premiums** on U.S. bonds will likely persist amid fiscal concerns, although Fed policy remains the primary determinant of yield levels. Chair Powell's "**higher for longer**" rate stance is expected to persist, with markets pricing in only two modest rate cuts by year-end, contingent on inflation moderation and labour market developments. We will monitor the US 10y Treasury yield very carefully. Any climb above 5% would be a red flag. The US 30y yield is already flirting with the 5% mark.

Q2 2025 **corporate earnings** will be closely watched, as expectations remain high following Q1's robust S&P 500 earnings growth (+12.8%). With current forward PE multiples elevated at close to 23x, the market tolerance for earnings disappointment is limited. Growth stocks, driven by continued AI adoption, remain a key play, with valuations notably lower relative to historical peaks (e.g., U.S. IT sector PE at 29x vs. nearly 50x in 2000). Prof. Girardin is showing on chart page 32, that the "Magnificent 6" PE (excluding Tesla, being too volatile) are trading at only 1.5x the PE of the Russell Mid-cap index compared to 2.3x in 2022. Along the same lines, Chinese equities continue to offer significant valuation discounts, trading at an undemanding 11x PE, i.e. a 35% discount to World equities PE.

Asset allocation strategy - With the prospects of a **Powell put** (lower FED rate) and a **Bessent put** (lower US yields at the long end of the yield curve, generated by funding the government with greater volumes of short-dated Treasury bills), a cooling inflation albeit more slowly, a resilient labour market and solid earnings growth so far, we do not see compelling reasons to turn risk off, despite the current demanding US market valuations and the uncertainty created by Trumponomics II (tariffs and US deficit). Our base case remains a **neutral equity** exposure aligned with our strategic targets, diversifying U.S. exposure toward European, Japanese, and Chinese equities. Market weakness would present selective buying opportunities, particularly in **cyclical and growth sectors** (financials, industrials, IT), while maintaining our defensive sector (mainly in utilities and healthcare) and value exposure. Further details on our granular exposures across geographic zones, sectors, and factors are available in our asset barometer section.

We would, however, reinstate a **tactical hedge** on part of the portfolio equity exposure, if market valuations keep expanding too quickly, expecting some renewed volatility related to tariffs, possible disappointing in corporate earnings and overbought conditions following the impressive rally in May/June (+12% on the S&P 500).

We keep a **neutral** stance with our **fixed-income** allocation, diversified across medium-term Treasuries, investment-grade papers, high-yield bonds, and emerging market debt, anticipating potential yield moderation, while accepting yields could be higher for longer. The current carry level in USD offers a strong cushion against possible higher rates in the short term.
Gold, platinum, and diversified commodities remain key hedges against USD risks.

In conclusion, numerous variables remain in play — most notably U.S. fiscal and tariff policies, inflation and labour market developments, as well as corporate earnings — all of which will influence Fed policy and the trajectory of financial markets. We maintain a flexible and disciplined approach and encourage investors to regularly reassess their investment objectives to ensure portfolios remain aligned with evolving market conditions and personal circumstances.

For a deeper dive into our investment strategy and insights from Prof. Girardin, please access our full investment strategy update using the following **link**.

We look forward to discussing these insights further and hearing your valuable thoughts.

In the meantime, the Mt Fort Advisers Team wishes you a pleasant and relaxing summer holiday season in the northern hemisphere, and an excellent winter season for those who can enjoy the snow in the southern hemisphere.

Thank you for your continued trust and support.

With our good wishes,

Your Research Team

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