REYL OVERSEAS
Intesa Sanpaolo Group

STRATEGY OUTLOOK

SEPTEMBER 2025

Key takeaways-

- "downside risks to employment are rising" J Powell
- Make hay while the sun shines.

Jerome Powell's speech at Jackson Hole, the Fed's annual offsite and global central banker pow-wow, finally affirmed the **likelihood of a rate cut**. "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance ". With around 90% of global central banks already in an interest rate easing trend the Fed are following suit. Political pressure on Powell to ease policy ratcheted up with the forcing out of Fed Governor Lisa Cook (for alleged mortgage fraud). **Fed Independence?** hmmm.

The magnitude of Fed easing to come will be most relevant for the Dollar, which collapsed despite the positive interest rate differentials to other countries. Emerging market equities (+18% ytd) and Gold (+29%) have ultimately already sniffed this out.

	July	YTD
S&P	2.17%	7.78%
Rest of the World	-1.12%	15.53%
US Treasury	0.33%	2.43%
Gold	-0.40%	25.35%
Bitcoin	8.26%	24.30%
WTI Crude Oil	6.37%	-3.43%
USD Index	3.19%	-7.85%

Currency weakness stokes inflationary pressure. However, Powell also said that the Fed has now **adopted a new framework** that removes reference to seeking inflation at an average of 2% over time but more so, to making decisions focused on employment.

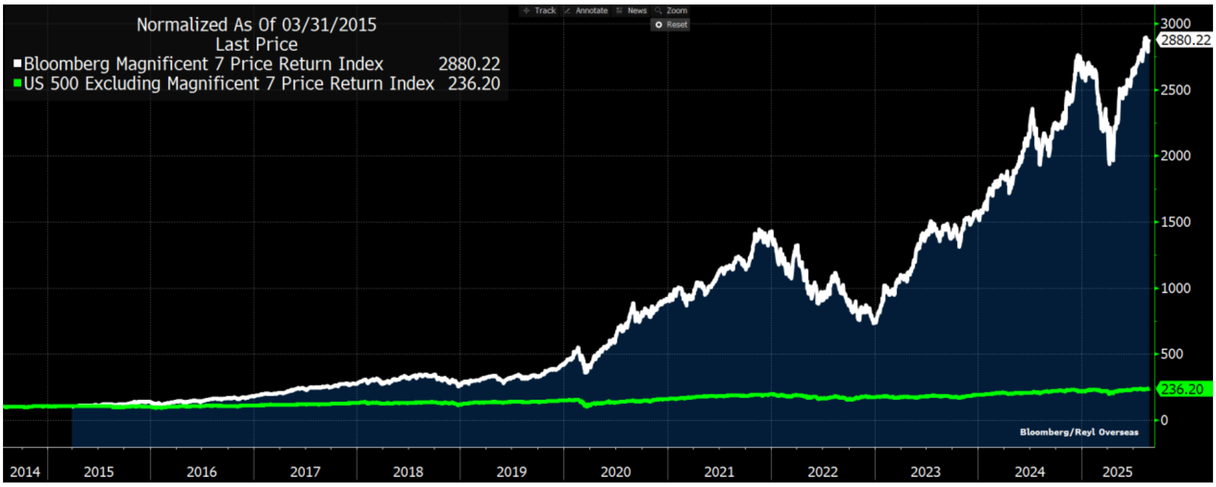
"there's something happening here but what it is ain't exactly clear. There's a man with a gun over there"

Notably absent from the Fed's commentary was any mention of money supply or the size of its balance sheet. A curious omission given their relevance.

All these signals are responses to the underlying issue that the US fiscal situation is unsustainable. Non-discretionary spending is growing quicker than tax receipts on top of the current 120% debt/GDP, 7% deficit/GDP and insufficient foreign buyers of treasuries. **Rate cuts need to happen.**

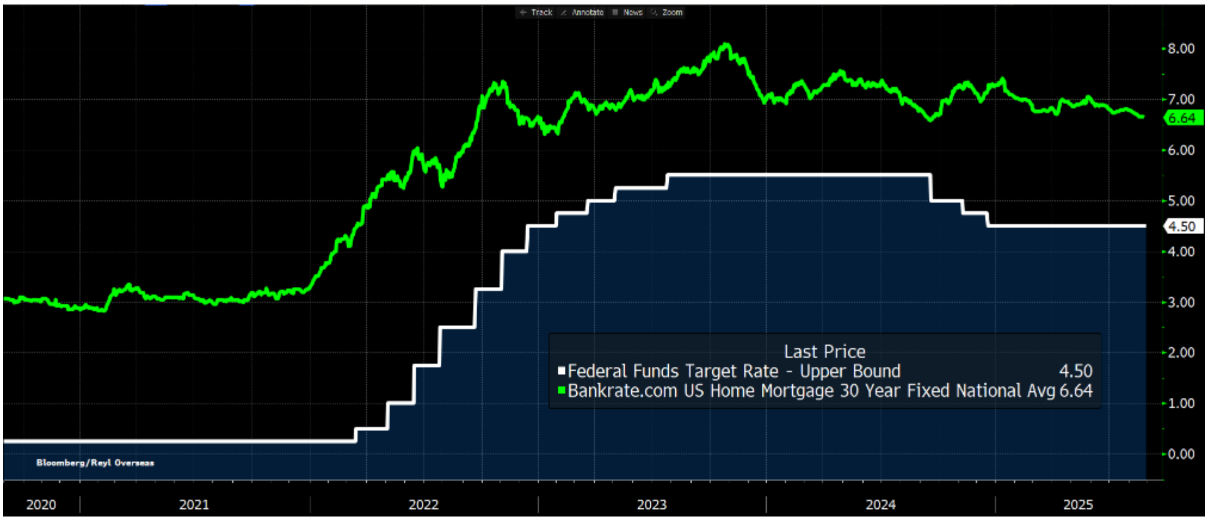
All this cements our view that Gold, Bitcoin and stocks should outperform. However, the case for a rate cut isn't going to be as clear as the market believes. Yes, both the labour and housing market look on the weak side, however the forward-looking indicators are rising. The S&P Global US Manufacturing PMI jumped from 49.7 to 53.3 to reach a 39-month high. We expect this to continue as financial conditions ease thanks to lower USD and weak oil prices, rising global liquidity helped by central bank cuts and eventually, in the US, lower lending rates. Versus the recessionary, end of cycle narrative we are more bullish. However…..

Do markets already reflect this? Is the economy simply catching up? The chart below, when you strip out the noise, yells 'bubble'. The magnificent seven (Nivida, Microsoft, Apple, Amazon, Google, Meta and Tesla) are now all that matters (first graph). Economic historians have seen it all before with the rest wondering, if indeed, this time is different. Nivida has a larger market cap than the UK, Germany or South Korea, an interesting stat but nothing we should bring into our analysis. Markets have a long history of overvaluing 'hot' narratives – a pattern we suspect to persist. We suspect and can be confident that markets will always overvalue 'hot' stories, and these can run for years. Our only takeaway is that this often leaves some sectors looking incredibly cheap. We suspect one such sector is energy, the sector required to power all the chips, datacenters, robotics, AI infrastructure etc. going forward until at least battery technology brings energy costs one day to zero.

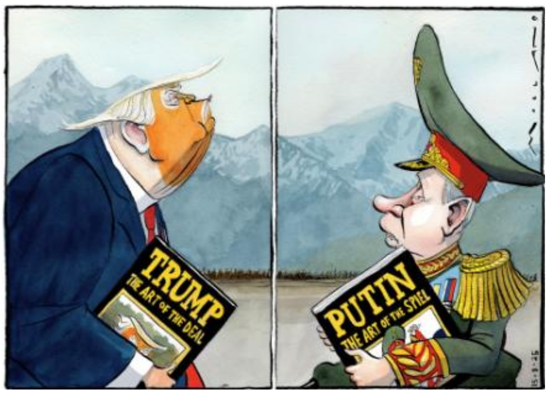


The narrative that AI is the invention akin to the dawn of the automobile as we all continue to ride horses continues to be an easy descriptor. Clearly, it's the future and, based on history, we probably are barely scraping the surface of the change it will bring. However, there is a significant amount of investment occurring that, given the technological change, will have to be depreciated over a short period of time. Where does the revenue come from to the extent required to cover costs. Revenue will undoubtedly grow strongly but this narrative has been seen before and someday, someone is going to pick up many of these assets at cents on the dollar just as we saw in the dotcom era or the early railway pioneers. The question is when do shareholders work this out.

The elephant in the room (the fiscal situation) isn't just a US monopoly. France has a significant debt mountain both publicly and privately. French politics is in a bit of a mess with a confidence vote looming and its current Finance minister warning that France may need help from the IMF. Not surprisingly French debt now yields more than Spain or Portugal. The latest goals are to scrap bank holidays, cut social spending, no increase in pension payments and to cut stakes in some companies. Not really the environment where the US desires for increased defense spending is an easy win. Germany is also having issues. Chancellor Merz gave a speech saying that Germany was not productive enough to fund its spending on the welfare state, which could "no longer be financed". The latest polls have suggested that if the election was repeated the coalition would fail.



Gold remains on our buy list to add to the current 5% holding. We would use **any weakness as a buying opportunity** as the long-term trend is clear. If debt levels are indeed increased even more, then Gold should outperform equity markets. Real assets also have the benefit of acting as protection to a weaker Dollar. Although we remain bullish on the economy this is seldom a simple direct translation into strong markets. Housing and the labour market remain a lingering concern, however recent earnings releases for the consumer discretionary sector were strong. The head of the BLS (Bureau of Labour



Statistics) was actually, fired by Trump in August which further questions the encroachment of politics into economics. Ultimately, we continue to believe the business cycle and liquidity cycle remain supportive for assets going into the second half. We expect these to dominate against the longer-term issues discussed above. I need to be careful in stating "a plan" being aware of the infamous Tyson quote (everyone has a plan until they are punched in the mouth") but we aren't changing our current positioning but freely admit the ease of finding interesting, undervalued assets is diminishing all the time. Make hay while the sun shines.

J. Loudoun

Chief Investment Officer, Reyl Overseas.

CONTACTS

SWITZERLAND

REYL Overseas Ltd
Talstrasse 65
8001 Zurich
T +41 58 717 94 00
F +41 58 717 93 01
contact@reyl-ovs.com
www.reyl-ovs.com

DISCLAIMER

This advisory note is provided by REYL Overseas Ltd, an independent affiliate of the REYL Group, duly registered as an independent adviser with the SEC.
The information and data presented in this advisory note are given for informational purposes only and are not to be used as, or considered to be, an offer or solicitation to buy, sell or subscribe to any securities or financial instruments.
This information does not take into consideration the specific investment objectives, financial situation or particular needs of any person that enters into a relationship with REYL Overseas Ltd which must be done by written agreement. The value and income of any securities or financial instruments can go up as well as down. The market value of securities or financial instruments may be affected by changes in economic, financial or political factors, time to maturity, market conditions and volatility, or the credit quality of any issuer or reference issuer.
REYL Overseas Ltd does not render or offer to render personalized investment advice in this advisory note. REYL Overseas Ltd may only transact business or render personalized investment advice in those States where it is registered or where an exemption or exclusion from such registration exists.

Foreign currency rates may have a positive or adverse effect on the value, price or income of any security or related investment. Many factors may affect the value of a financial instrument, and accordingly, investors effectively assume all risks and may receive back less than they had originally invested.

Past performance should not be taken as, and is not, an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by REYL Overseas Ltd regarding future performance.

Any information contained on this advisory note does not constitute the investment policy or strategy of REYL Overseas Ltd or an investment recommendation, but merely the different assumptions, views and analytical methods of those who prepared it. The information, opinions and estimates expressed in this advisory note reflect a judgment as of its original publication date and are subject to change without notice.

Proprietary papers and writings are the opinion of REYL Overseas Ltd. Other articles, links, and information contained herein are obtained from sources REYL Overseas Ltd believed to be reliable. Although all reasonable care was taken in gathering the information and formulating the opinions contained herein, REYL Overseas Ltd does not make any representation whatsoever as to its accuracy or completeness. Accordingly, REYL Overseas Ltd accepts no liability for any loss arising from the use of this note, which are made available for information purposes only.

This advisory note is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Clients should consult their adviser with regard to any questions they may have. Please be aware that there are risks associated with all investments and investment strategies.