

Q4 2025

Revised December 22

HONOUR

Team Global View

Historic Transformations



FED: Signs of Institutional Independence

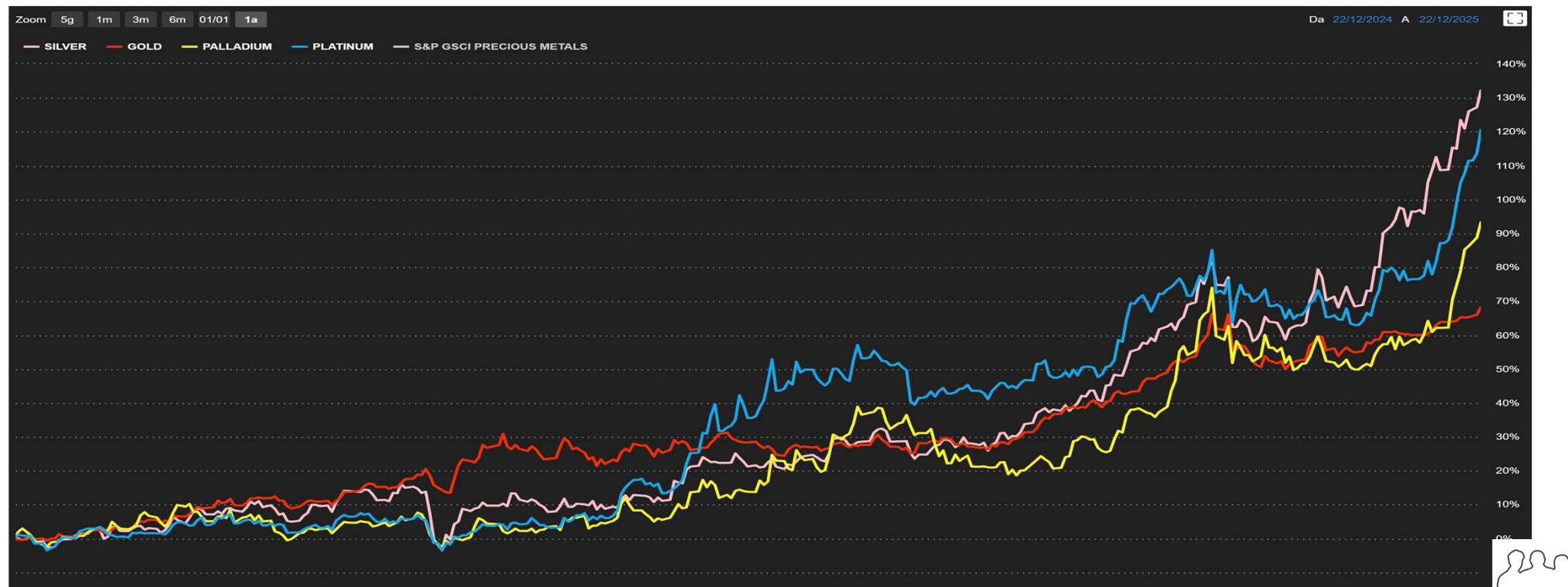
At the most recent meeting of the Federal Reserve, Chair Powell reduced interest rates but deliberately maintained a cautious and non-accommodative tone in his communication. The message was unequivocal: monetary easing is neither automatic nor guaranteed and remains contingent upon developments in inflation and the labor market. Markets have interpreted this approach as a sign of continuity and credibility. While the rate cut was likely welcomed by former President Trump, the absence of explicit support for further and rapid reductions was met with far less enthusiasm. This message of autonomy was further reinforced by the official Federal Reserve statement issued on December 11, 2025, announcing the unanimous reappointment of the presidents and vice presidents of the twelve Federal Reserve Banks for a new five-year term commencing March 1, 2026.

From an operational perspective, this decision carries considerable significance: the reaffirmation of the regional presidents effectively secures the positions of 11 out of 12 FOMC members for the coming years, thereby substantially reducing the risk of political interference during the critical period leading up to the change in Federal Reserve leadership in 2026. In other words, even if former President Trump intends to replace Chair Powell and appoint governors more closely aligned with his policy priorities, the composition of the FOMC will remain largely stable and institutionally safeguarded. This measure limits the likelihood of an abrupt shift toward an overly expansionary monetary policy, despite ongoing pressure for more aggressive rate cuts.



The resurgence of GOLD as a primary strategic reserve

During the review conducted on September 12, the question was raised as to whether a new monetary paradigm was emerging in which FIAT currencies might lose ground to GOLD, SILVER, and other precious metals such as palladium and platinum. Following a technical correction phase that occurred between the end of October and the early days of November, both GOLD and other precious metals have resumed a distinctly upward trajectory, which, at first glance, appears to have far-reaching objectives. Therefore, it is indeed considered that these assets have entered a new and significant era, the conclusion of which is difficult to envisage. More than any commentary, the subsequent chart best illustrates this concept.



Winds of war

EUROPE has been impacted by a series of events that have significantly affected the Union's economic conditions, such as:

- » the implementation of a vertical «Green Deal» which has severely disrupted the historic automotive industry, traditionally based on internal combustion engine technology—particularly diesel—which for decades has been the backbone of German, Italian, and French exports.
- » the abandonment of low-cost energy sources (Russian gas) as a consequence of aligning against Russia in the conflict with Ukraine
- » the imposition of sanctions against Russia which have resulted in adverse repercussions for all Member States of the Union
- » uncontrolled immigration which began during the Merkel administration

At this juncture, European leaders such as Macron, Merz, and, across the Channel, Starmer, are openly expressing an ambition for direct confrontation with Russia, while simultaneously asserting the contrary—that such intent lies not with them, but with Russia itself towards Europe. It is worth recalling

that, in ancient Rome, periods of economic crisis were often resolved by initiating conflict with another state. lived through an economic crisis, and found in waging war a natural solution to the problem.

CHINA and Taiwan On the Asian front as well, we continue to observe statements from China concerning its ambitions regarding the historic island of Formosa. Taiwan remains, from both an industrial and geopolitical perspective, an indispensable strategic asset for the United States and Japan, both of which, to varying degrees, have warned China against any reckless actions towards the island that could provoke an immediate military response. On this matter, the new Japanese Prime Minister, Takaichi, has been unequivocal and resolute. We thus approach the Christmas season with the ongoing suffering caused by the Russo-Ukrainian conflict in our hearts and concerns about both the European and Asian futures in our minds. It is hoped that reason will ultimately prevail; however, there is a strong sense that a wartime economy is now deemed necessary to offset the economic disasters resulting from erroneous and highly inappropriate decisions attributable to a European leadership that perceives war as essential to its own political survival.



Currencies

In recent months, the **USD** has experienced downward pressure. The Federal Reserve has announced its intention to support bank reserves through the purchase of short-term government securities (**\$40 billion per month**), not as an economic stimulus, but rather to ensure the stability of the banking system. The ongoing structural weakening of the USD against the EURO, and particularly against real assets, remains consistent with a combination of central bank rate cuts, high deficits, and growth driven by fiscal policy interventions. **The JPY** continues to represent a key variable: the combination of a more restrictive Bank of Japan (BOJ) policy, a potential increase in the official discount rate (currently at 0.75%), in line with inflation above 3%, and the possible unwinding of existing carry trades, could turn the JPY from a 'functionally weak currency' into a true catalyst for global volatility. It should be noted that yields on long-term Japanese bonds (30Y) have risen above 3%, which may encourage capital repatriation.

Bond – Yield Curve

The U.S. Treasury is significantly impacted by the necessity to refinance a substantial volume of debt in 2026 (**a considerable \$8 trillion**) The recent 0.25% reduction in the federal funds rate implemented by the **Federal Reserve (FED)** has affected the short end of the yield curve, but not the long end, leading to a natural steepening. Furthermore, the FED's program of repurchasing \$40 billion in Treasury securities per month until April 2026 has been intentionally focused on short-term securities, without impacting long-term yields. The current state of U.S. interest rates appears complex and challenging to interpret, and remains susceptible to yield spikes that may result from a variety of market factors, including: decreased demand, concerns regarding USD depreciation, and a heightened perception of risk associated with debt for which no quantitative reduction is anticipated in the foreseeable future.



Equities

Financial markets are currently undergoing a period of reflection regarding the technology sector, rather than rejecting it entirely. Following several years of sector leadership, there is now a temporary shift in preference toward more defensive equities and those focused on tangible cash flow (**commonly referred to as "VALUE"**), as the market is presently favoring realized earnings over future promises. The central point is that attention has moved from the implicit potential of the Artificial Intelligence revolution to its financial sustainability. The significant investments required (**CAPEX**) are beginning to have a tangible impact: increased spending today results in higher debt, greater depreciation, and mounting pressures on future free cash flow. Three principal concerns have emerged: - **Financing** (the duration for which the market will remain willing to support such a capital-intensive ecosystem) - **Capex and credit** (additional infrastructure translates to tighter cash constraints and increased sensitivity to the cost of capital) - **Free cash flow** (compression of cash flows, introducing risks to buybacks and dividends which have thus far supported the US technology market).

Commodities

Precious metals shall continue to serve as a key point of reference within the portfolio, particularly as a counterbalance to the ongoing structural weakening of FIAT currencies. These metals are expected to remain supported by a weaker USD; silver, platinum, and palladium will continue to benefit both from gold's momentum and from ongoing industrial demand. With regard to URANIUM, in addition to heightened interest in next-generation nuclear power and global energy security, there is an additional opportunity emerging from the Artificial Intelligence sector: the significant amount of energy required to operate data centers and high-intensity cloud systems may provide structural support for uranium demand. This rationale is also applicable to COPPER.



Real Economy

In light of the prevailing price levels of securities listed on public markets, with the possible exception of the relatively less expensive Asian markets, we continue to allocate a significant portion of our portfolios to investments in the real economy. Globally, industry participants are also demonstrating a pronounced focus on this sector.

The advantages:

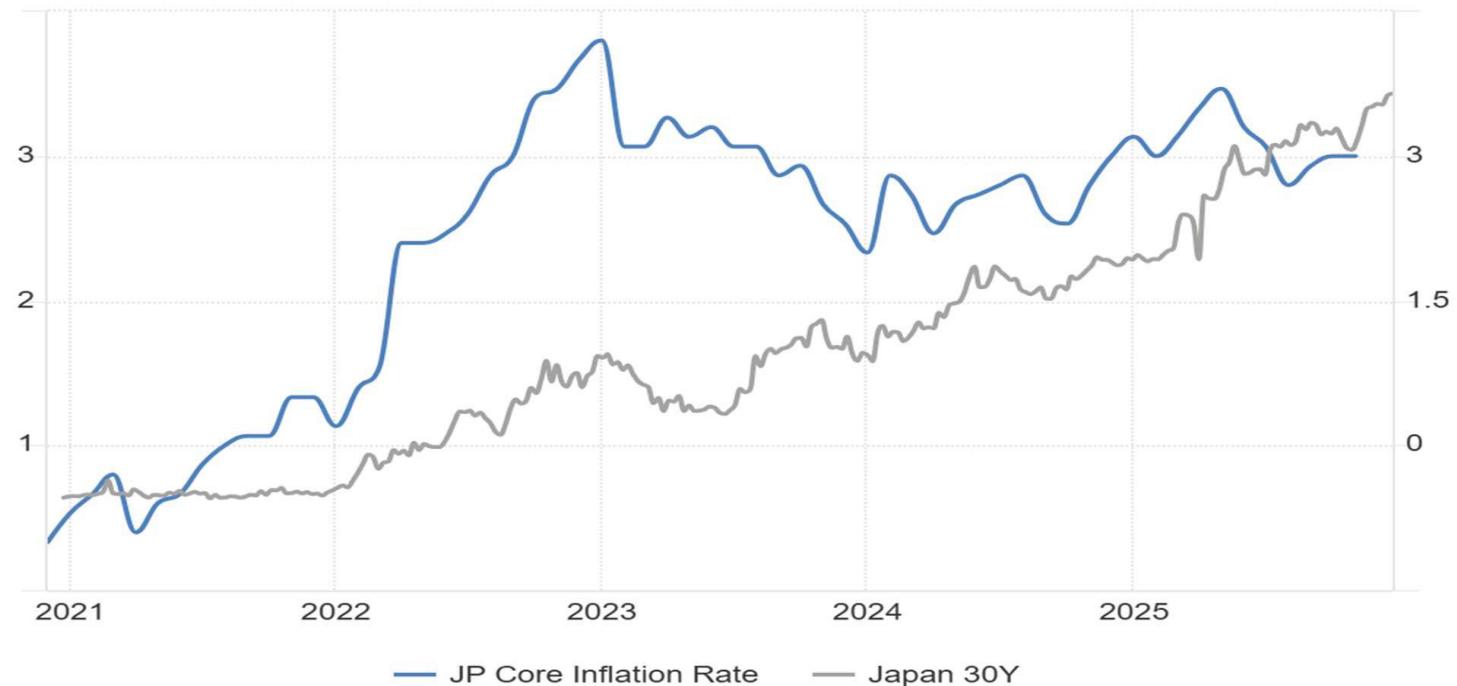
- Diversification in comparison to equity markets with excessively high valuations
- Resilience in uncertain macroeconomic conditions, marked by signs of stagflation and divergence in central bank policies
- Potentially superior returns compared to listed equities, due to investments in tangible sectors such as infrastructure, mid-market private equity, and energy.
- Protection against inflation and a relatively stable income, supported by tangible and predictable cash flows.



The JPY Carry Trade and Its Implications for Financial Markets

The carry trade strategy based on borrowing in JPY, which has benefited from extremely low interest rates to invest in particularly lucrative asset classes such as: a) U.S. government bonds, b) cryptocurrencies, and c) the U.S. technology equity sector, may have reached its conclusion. This scenario would materialize if the Bank of Japan, recognizing that structural inflation has remained above 3% for an extended period, were to adopt a more restrictive interest rate policy (similar to the approach taken by the Federal Reserve in 2022 in response to unexpectedly high and uncontrolled inflation), raising rates from the current 0.75% to levels equal to or exceeding the inflation rate, in accordance with established economic principles.

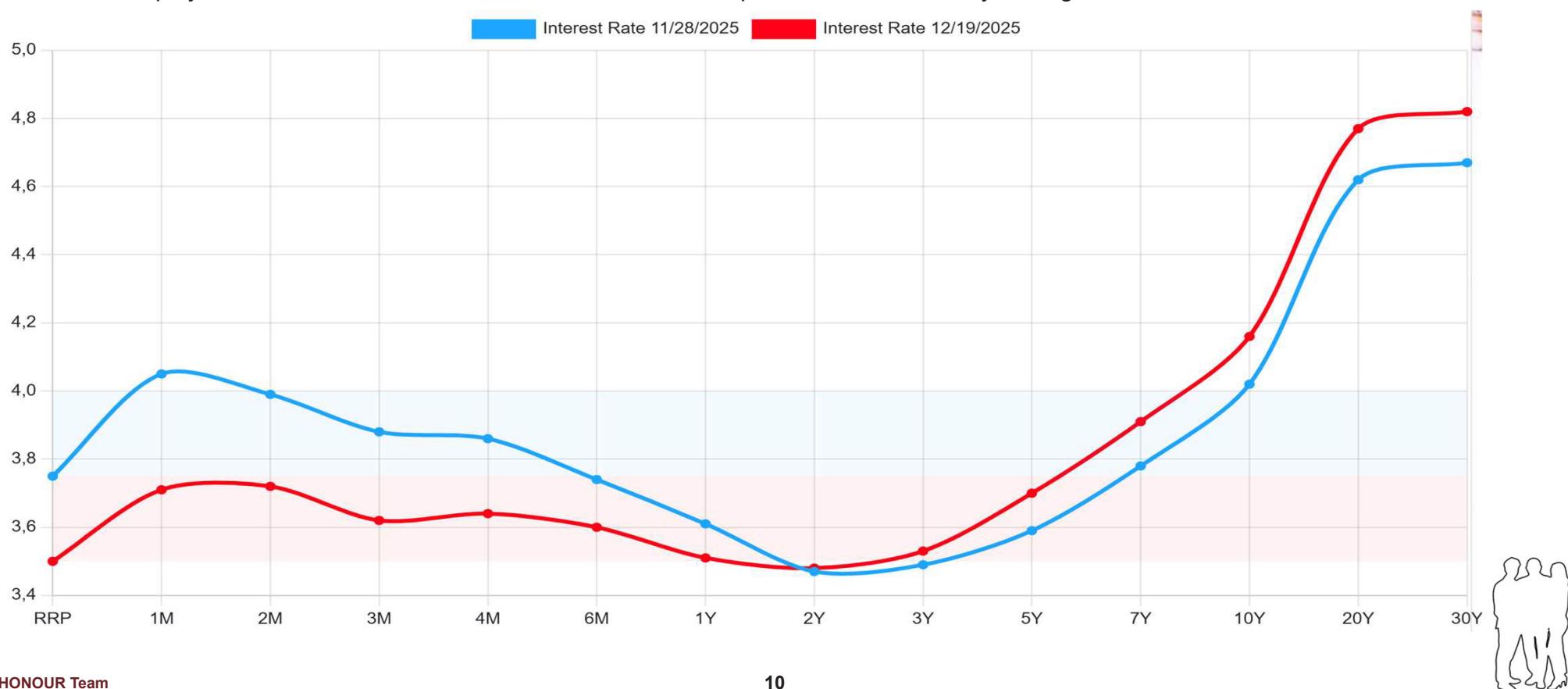
Economic history has demonstrated the considerable risks associated with prolonged reliance on highly expansionary monetary policies, as Japan has done for an extended period. It is important to note, however, that for more than 25 years, Japan's principal challenge was a seemingly unending structural deflation. The potential dangers associated with the end of this phenomenon became evident during the crisis of August 5, 2024, when the prospect of a new restrictive policy (which was later denied by the Bank of Japan) resulted in the NIKKEI index recording its largest single-day loss in history, at -12.4%.



The Fed's Restrictive Rate Cut: Implications for Financial Markets

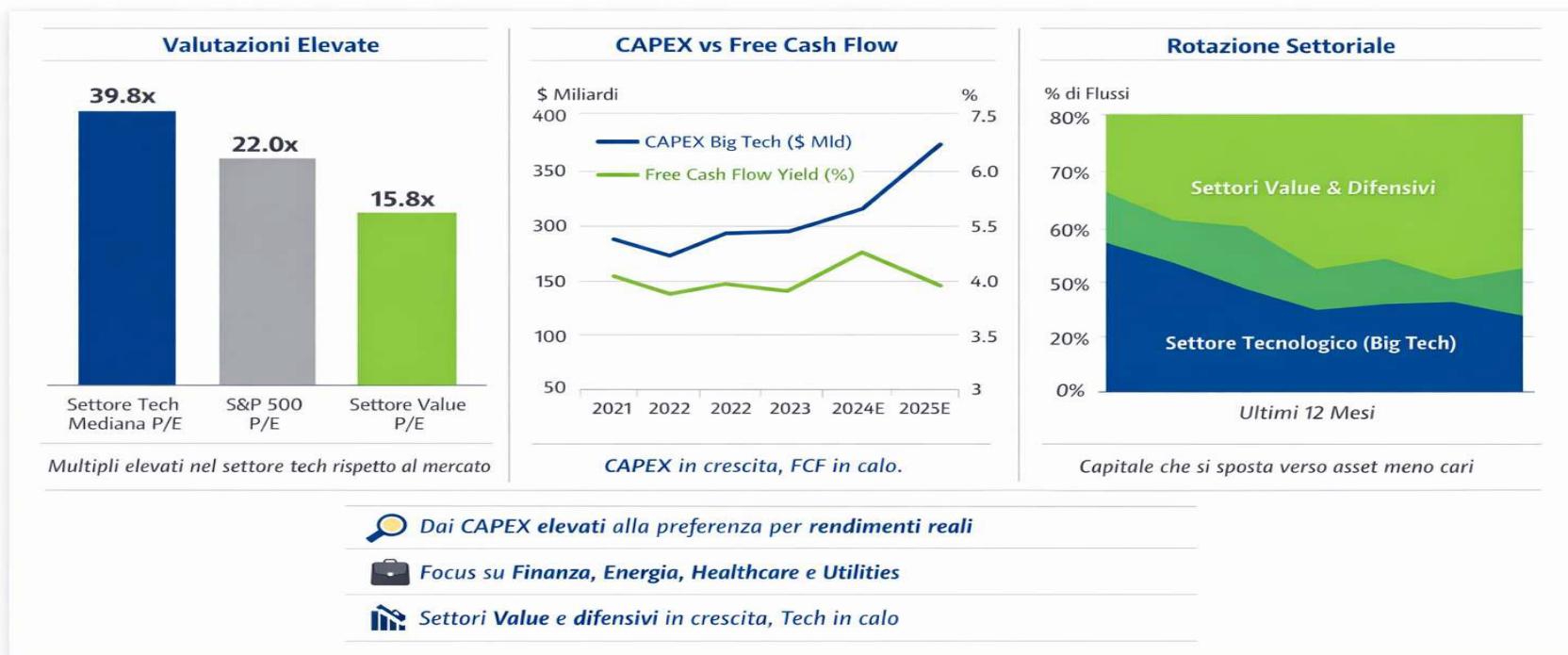
In recent weeks, long-term interest rates in the United States have risen, despite increasing expectations of a rate cut by the Federal Reserve. Typically, a rate reduction would lead to a decline in Treasury yields; however, in the most recent period, 10-year yields have climbed above 4.1%, marking the highest level since September.

This apparent paradox reflects the markets' perception that, although a 25 basis point cut in the benchmark rate has already been anticipated, the Federal Reserve will adopt a prudent approach, known as a "restrictive cut." In practice, Jerome Powell has likely indicated that the reduction in rates does not signify unlimited easing and that controlling inflation remains a top priority. As a result, bond investors have forecasted that there will be few or no further cuts in 2026, which is contributing to the upward movement in long-term yields. This phenomenon is also generating tensions in the equity markets, which until now have benefited from expectations of monetary easing.



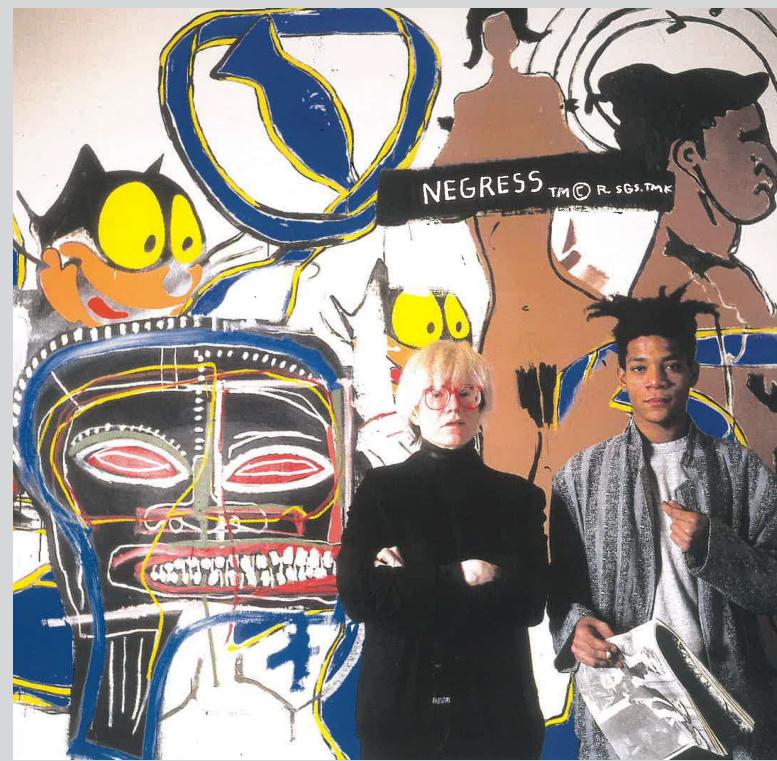
The technology sector currently exhibits price-to-earnings multiples that are markedly higher than those of the broader market: the median P/E stands at 39.8x, well above that of the S&P 500 (22x). Given these somewhat elevated factors, a significant number of investors are reallocating towards sectors characterized by more moderate valuation profiles (commonly referred to as VALUE). **This shift should not be viewed as a rejection of technology, but rather as a more considered reallocation of capital.**

Tecnologia in pausa di riflessione: rotazione verso Value e Free Cash Flow





Jean-Michel Basquiat and Bruno Bischofberger – Zurich, 1985



Andy Warhol and Jean-Michel Basquiat – New York, 1985

Establishing a company or creating a work of art are pursuits that bear notable similarities. Both originate from an individual's inspiration. Ultimately, they serve as manifestations of human endeavor, shaped by principles of balance so diverse and nuanced that the creative journey undertaken by the entrepreneur or artist—guided by experience, intellect, and above all, passion—is not easily accessible to all.

“My themes are royalty, heroism, and the streets.” Jean Michel Basquiat

“I am unable to describe my work, as it is never the same. It is akin to asking Miles Davis how his trumpet sounds.” Jean Michel Basquiat

In essence, engaging in investments entails seeking out and recognizing brilliance within human endeavors.

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