True Partner Capital

Does America First signal the end of American exceptionalism?

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Entering 2025, belief in continued US exceptionalism was the norm, and was reflected in investor positioning and the premium attached to US assets. Coming into 2025, our outlook had highlighted this as a risk – but we know risks can take time to play out. When fundamentals shift, markets don't always immediately follow. Data evidencing changes typically follows at a lag and investor flows are driven by a range of factors. But once change begins, it can happen fast.

After some 'micro events' last year, we are now starting to see more signs of change impacting price action. This is creating opportunities for our volatility strategies and is increasingly evident in the macro shifts across markets. We expect market volatility ahead and see the potential for a multi-year realignment of the world economy and the political order. This will bring risks but also opportunities. We expect volatility strategies to be a beneficiary, particularly those that thrive on higher volatility.

While we are not macro traders, understanding shifts in the market backdrop is important for contextualizing moves and anticipating change. We hope you find our thoughts useful and look forward to your comments and critiques.

How did we get here?

Out of the devastation of the Second World War, the United States became the world's dominant economic, military and cultural power. This period of relative peace (between major powers) was dubbed the Pax Americana and culminated in the collapse of the Soviet Union towards the end of the last century. The peace dividend following the end of the Cold War saw sustained global economic growth, accelerated by globalization as labor, capital and consumer markets became more integrated, effectively delivering a supply side boost to the global economy, while defense spending also declined markedly. China's growth strategy took advantage of these developments, helping it to rise as an industrial and economic powerhouse.

Throughout the True Partner team's careers, but particularly since the global financial crisis, we have seen this reflected in a continual shift towards US dominance of the global financial markets. American Exceptionalism drove a concentration of talent, innovation and liquidity to the major US financial centers. The combination of freedom, liberty and the rule of law, along with the US economy's general dynamism, attracted entrepreneurs, whizz-kids and other talent (as evidenced by a quick look at the backgrounds of key US CEOs and tech-company founders). This virtuous circle has helped drive growth and a US premium in corporate valuations. The US dollar has also been the dominant currency – with 88% of FX transactions having the USD as one of the legs[1] and over half of official FX reserves being in USD[2].

But for over a decade now, discontent has been rising throughout the US and Western Europe. Globalization led to lower consumer goods prices, but also helped to drive deindustrialization throughout the developed world and limited growth in real median wages. At the same time, housing became more expensive relative to average incomes, as asset prices benefited from lower interest rates and wealth and income inequalities widened. Many ordinary people did not feel globalization was working for them. The year 2016 was a turning point, with both the Brexit referendum in the United Kingdom and the election of Donald Trump in the US. Both decisions came as a surprise to most Western elites and to financial markets.

Developments since have continued along this path. The UK opted for a 'hard Brexit', while right-wing parties have entered government in several EU countries (and in some key countries elsewhere) and there has been a shift against incumbents. Trump, dismissed by many after his failed attempt at re-election in 2020 and the events of January 6th, 2021, has re-emerged stronger and led the Republicans to win the Presidency, House and Senate in the 2024 election.

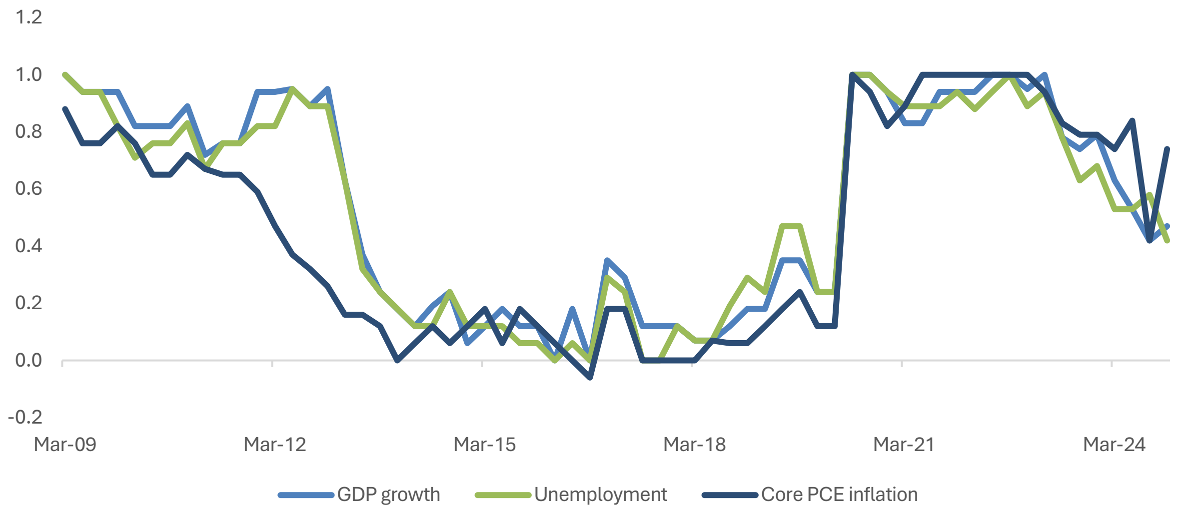
[1] Tombini, Alexandre: "The impact of international fragmentation and the role of the US dollar", 28 October 2023

[2] IMF Currency Composition of Official Foreign Exchange Reserves, as of Q3 2024

The Covid pandemic also cast its shadow forward. Restrictions on activity and supply chain disruptions created pressures and pent-up demand. Stimulus measures triggered massive growth in money supply and debt. Russia's invasion of Ukraine and the imposition of sanctions then further disrupted supply chains in energy and elsewhere, leading to inflationary spikes.

The force and persistence of these inflationary pressures has repeatedly surprised central banks and many economists. After a decade in which inflation persistently surprised by being so subdued, forecasting error dramatically reversed. This has undermined faith in previous inflation models, led to significantly higher interest rates and an end of the 'new normal' post crisis era as interest rates return back to pre-2008 norms. In 2020 central banks had a clear and aggressive policy playbook that was used to respond to the Covid shock. With now higher uncertainty regarding the macro framework, central banks will likely be more dependent on short-term data and more averse to making bold moves.

FOMC participants' uncertainty about key economic data, March 2009 to March 2025[3]



Trade restrictions, sanctions and protectionism have also become a geopolitical tool once more, as the US aimed to counter China's rise and to punish Russia. Against this backdrop we now have the arrival of Trump 2.0, with the administration's isolationist and mercantilist plans on trade and foreign policy. The disruption to the previous world order now appears to become a major break.

At the same time, until recent weeks, most equity markets continued to post all-time highs in numerical terms as well as from a valuation perspective. The S&P 500 posted back-to-back gains of 25% or more in 2023 and 2024 and entered 2025 trading at an unusually high valuation. Through March 14, 2025, the MSCI World index (total return, hedged to USD) is up over 150% since the lows in March 2020 and over 60% since the lows of September 2022.

Key elements of the MAGA plan

During the US election campaign, it was popular to discount Trump's statements as campaign and negotiating rhetoric, deliberately exaggerated to win over supporters and to motivate those targeted to offer quick concessions to the US. In short, it was seen as part of the 'art of the deal' to borrow the title of Trump's 1987 book, in which he states that "a little hyperbole never hurts."[4]

But the MAGA takeover of the Republican party – and its success in the 2024 election – has given Trump and team enormous latitude. The GOP majority in Congress is now broadly supportive of Trump, afraid of being 'out

[3] Source: Federal Reserve (FOMC participants' economic projections)
[4] Trump, Donald and Schwartz, Tony, "The Art of the Deal", 1987

of favour' and aware of its dependency on him. This means policy can be significantly more ideologically driven and may include material elements that are market unfriendly or that change established doctrines of foreign and domestic policy.

From the inauguration onwards, the US has seen a whirlwind of plans, policies, executive orders and lawsuits. While there has been hyperbole and multiple reversals, it also appears that Trump and his team were dead serious about their intentions. Despite the apparent pre-eminence of the US on many metrics, they believe drastic action is required and the Project 2025 blueprint is being put into effect in rapid fashion, despite Trump's insistence during the campaign that he had "not read it" and had 'nothing to do with it'.[5]

The team charged with bringing this about is atypical. For starters, the team includes several billionaires, many notable donors to Trump's campaign or associated PACs. Appointments have also had a strong emphasis on loyalty and personal relationships, at times some would argue at the expense of experience. While two of the most controversial candidates were withdrawn, the others were Senate approved. Corporate America has taken notice. Many have responded to the changing political environment by abandoning previous initiatives and are jockeying for a favored position.

Trump has also been happy to ignore conventions, notably with the unusual role of Elon Musk. In many ways Musk appears to have one of the most powerful roles in the administration, yet his role has been structured in a way that has attempted to enable him to remain notably exempt from the usual scrutiny, disclosure and divestment rules accompanying senior appointees. The price of acquiring talent? Perhaps. But coupled with calls to impeach judges viewed as obstructive, it could also be seen as a view that it is ok to override longstanding institutional conventions in the name of 'getting things done'.

Turning to policies, the administration has several priorities. At home, it wants to cut taxes (by making permanent the 2017 tax cuts), to reduce government spending, to reverse illegal immigration and to support a mix of conservative and sometimes libertarian values by reshaping institutions. Abroad, it wants to realign trading relationships and to reduce spending on those it perceives as free-riding allies in a zero-sum, often mercantilist perception of the world.

Domestically, policies look to be both disrupting and inflationary. The government targets expulsion of millions of illegal immigrants, who are key sources of labor in low-wage sectors such as hospitality, construction and agriculture and by some estimates could be as high as over 5% of the overall labor force.[6] The 2017 tax cuts established under the Tax Cuts and Jobs Act are due to expire at the end of 2025 and are slated to be extended, with several new tax reductions proposed on top. The US Treasury estimated in January that extending the expiring provisions of the TCJA would cost $4.2 trillion between 2026 and 2035, with an additional $1.3 trillion cost if expiring business taxes in the TCJA were extended and new business taxes within the TCJA were reversed as some have proposed.[7]

At the same time Elon Musk and his DOGE team appear to be applying a 'move fast and break things' approach to cutting government spending. While there are undoubtedly areas of waste, in the short-run we could see a negative growth impulse from cutting government-funded jobs. Federal government spending was on average 20% of GDP from 1962 to 2019. It was around 30% of GDP during the peak of Covid in 2020 and 2021 and averaged 23.5% of GDP over 2022 to 2024. That difference in spending has been deficit funded and has been a boost to US growth in recent years.[8] Rapid cuts could be painful.

The blunt approach taken by DOGE also creates the risk that some services become unable to function properly. The administration is quickly installing Trump loyalists in senior positions and removing perceived opponents. This could act as a deterrent to those who may otherwise seek to warn of negative consequences.

[5] Trump in debate again denies involvement in Project 2025, ABC News, September 11, 2024; https://abcnews.go.com/Politics/trump-debate-denies-involvement-project-2025/story?id=113569516

[6] The Importance of Immigrant Labor to the US Economy, Center for Migration studies, September 2, 2024

[7] "The Cost and Distribution of Extending Expiring Provisions of the Tax Cuts and Jobs Act of 2017", US Treasury, 10 January 2025 https://home.treasury.gov/system/files/131/The-Cost-and-Distribution-of-Extending-Expiring-Provisions-of-TCJA-01102025.pdf

[8] Based on CBO data, True Partner Analysis

One risk is of a major safety breach, which could undermine confidence in this aspect of the administration's plans.

Trade and foreign policy are seeing even greater disruption. Prior to the election, many had assumed that Trump's talk of tariffs would simply be a negotiating ploy to win concessions from trade partners. However, it appears that the administration genuinely believes that tariffs are an effective policy tool and source of revenue, meaning that we could see persistent tariffs across a wide range of countries. If the US sets tariffs based on a very broad definition of 'reciprocity' (it has been floated that this could include sales taxes applied to both domestically produced and imported goods such as VAT in Europe), then we could see double digit tariffs applied to many European countries and other allies.

The tariffs are one part of an overall policy that reflects a broadly, isolationist, realist and somewhat mercantilist view of the world. The floating of the so-called 'Mar-a-Lago accord' idea (which looks suspiciously like a devaluation of foreign held bonds through a duration swap accompanied by inflationary policies) is another example of this mindset. But Trump's stance on the Ukraine conflict is perhaps the starkest example. Whereas the Biden administration proclaimed to Ukraine "the United States stands with you" and spent heavily on support along with European allies, Trump appears focused on extracting payments for the US' spending to date (notwithstanding that these payments were made as grants and some hyperbole around amounts) and avoiding any US security guarantees – thus removing any obligation to spend to fund the defense of Ukraine and indeed of Europe. As Trump described his view on social media: "This War is far more important to Europe than it is to us – we have a big, beautiful Ocean as separation."[9]

This is prompting European politicians to unite together and commit to major increases in defense spending, which has prompted an almighty rally in European defense stocks. New German Chancellor Friedrich Merz summed up the German (if not European) mood straight after the German elections: "I would never have thought that I would have to say something like this in a TV show but, after Donald Trump's remarks last week…it is clear that this government does not care much about the fate of Europe".[10]

But markets have been quick to price in a major shift – and policy will now have to follow through to avoid disappointment. German arms manufacturer Rheinmetall AG is an example of the market's new enthusiasm for defense stocks. Having traded at an average P/E of 15x in the 5 years prior to Russia's 2022 invasion of Ukraine, it is now at 74x. Having already grown rapidly in the last 3 years, the company is expected to more than triple its earnings from 2024 and 2027 and yet still trades at a higher forward multiple of 2027 earnings than Nvidia.

Tax cuts, trade wars and tariffs – a recipe for growth?

In 1992, Bill Clinton's campaign strategist James Carville famously quipped that "it's the economy, stupid". The Democrats' loss in 2024 was in large part because Americans felt worse off due to high inflation, even though real GDP growth had been relatively strong over his term. We believe that the economy remains key.

What does the administration's agenda mean for the economy? Unfunded tax cuts would drive up US deficits further from already high levels. That is unlikely to be acceptable to Congress, so the administration will need to cut spending or raise revenues. The impact of DOGE is hard to gauge. Government spending has been a big contributor to GDP in recent years, as noted above, and major cuts could have a notably negative near-term impact. However, cutting spending in size is not easy. We are seeing some companies report the impact of DOGE cuts.[11] But, for all the headlines, the President has promised to protect many of the highest spending parts of government, such as Medicare and Social Security. If he does, cuts alone are unlikely to be enough.

[9] Trump post on Truth Social, as reposted on X, 19 Feb 2025

[10] As quoted by Reuters, "Likely next German chancellor Merz questions NATO's future in 'current form'", Reuters, 24 February 2025 https://www.reuters.com/world/europe/germanys-merz-questions-longevity-natos-current-form-2025-02-23/

[11] Accenture warns Elon Musk's Doge-led spending crackdown is hitting revenues, Financial Times, 21 March 2025

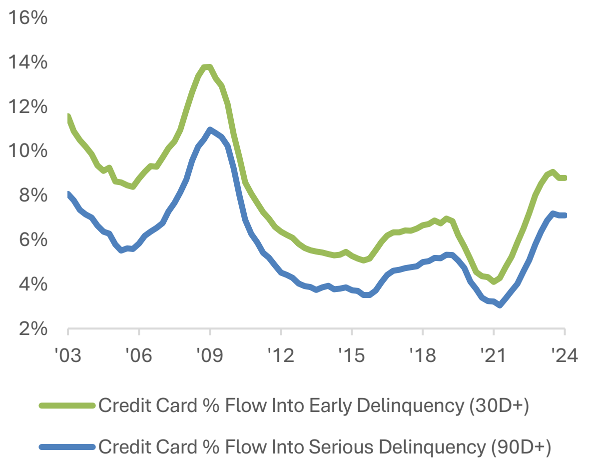
The administration may seek to plug the gap with tariffs. However, revenue from tariffs is likely to be temporary, as they will lead to substitution. Tariffs are also likely to lead to inflation as they cause a negative supply shock, higher prices and a negative impact on margins. Many US companies' inputs are likely to be caught in the tariff net, which could lead to broad rises in prices – and associated upward pressure on wages at the same time as the expulsion of illegal immigrants reduces labor supply. Moving production because of tariffs is likely to lead to lower productivity growth as disengaging from highly efficient global supply chains comes at a cost. The combination implies rates to be higher for longer, raising debt service costs. The threat of tariffs also increases business uncertainty, which is likely to delay or reduce investment.

The rhetoric around tariffs and the use of tariffs as retaliation for perceived policy failures on other issues (e.g. drugs) is further risking tit-for-tat retaliation rather than de-escalation. As China's foreign ministry spokesman said recently: "Bullying does not work on us... Anyone using maximum pressure on China is picking the wrong guy and miscalculating... if war is what the U.S. wants, be it a tariff war, a trade war or any other type of war, we're ready to fight till the end."[12]

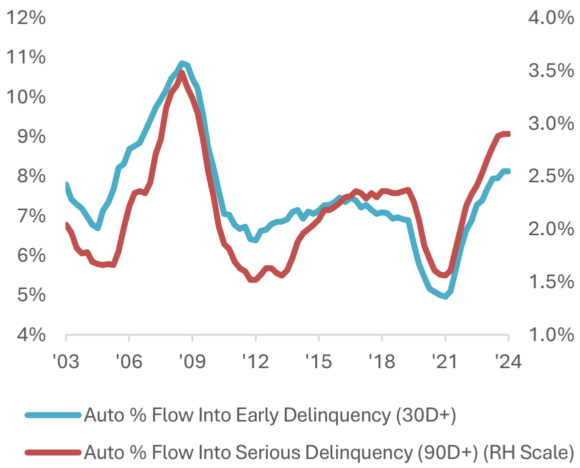
If tariffs are implemented in a widespread way, the impact on Trump's base will grow. We could see more and higher paid manufacturing jobs for some of Trump's Rust Belt constituents, but likely at the expense of others elsewhere. Those further down the income spectrum (many of Trump's new supporters in 2024)[13] are likely to feel most of the cost of higher inflation as daily items and white goods become more expensive. Tariffs are generally a regressive tax mostly impacting those at the lower and middle parts of the income scale, as they spend a greater share of their income on goods and services.

Higher prices and reduced investment are a risk to the mighty US consumer, who has been remarkably resilient in recent years, boosted by excess savings accrued during the pandemic (in part due to massive fiscal stimulus). With excess savings now largely spent and early signs of rising credit card balances and delinquencies in loans, a negative shock is likely to be harder to absorb and could prompt retrenchment.

US credit card delinquencies (through 2024-4Q)



US auto loan delinquencies (through 2024-4Q)



Could tax cuts offset that negative growth impulse? The bulk of the proposed tax cuts appear focused on the wealthiest sections of US society, who are more likely to save or invest any additional income. That could be a short-term boost to markets, but it seems hard to imagine a massive boost to corporate investment given already buoyant capital markets, low credit spreads and high equity multiples.

The administration may argue that they are taking inefficient spending and redirecting it to wealth creation, along the lines of the 'supply side' or 'trickle-down' theory. This is the apparent intellectual rationale behind the

[12] Foreign Ministry Spokesperson Lin Jian's Regular Press Conference on March 4, 2025, Ministry of Foreign Affairs of the People's Republic of China, https://www.fmprc.gov.cn/eng/xw/fyrbt/lxjzh/202503/t20250304_11568271.html

[13] "Poorer voters flocked to Trump — and other data points from the election", Financial Times, 9 November 2024; https://www.ft.com/content/6de668c7-64e9-4196-b2c5-9ceca966fe3f

suggestions from Elon Musk and Commerce Secretary Howard Lutnick to exclude government spending from GDP growth.[14] A less sympathetic economist might counter that it is substituting spending with a potentially high multiplier effect with spending which has a lower multiplier effect. Over the years, there have been various examples of trickle-down economics not bringing the desired effect, including that in the State of Kansas under Governor Sam Brownback in the early teens[15]. Regardless of the long-term effects, if it involves cutting a lot of jobs in the short-run, then it will negatively impact near-term growth. We would be surprised if markets simply 'look through' that to focus on promised long-term potential growth gains.

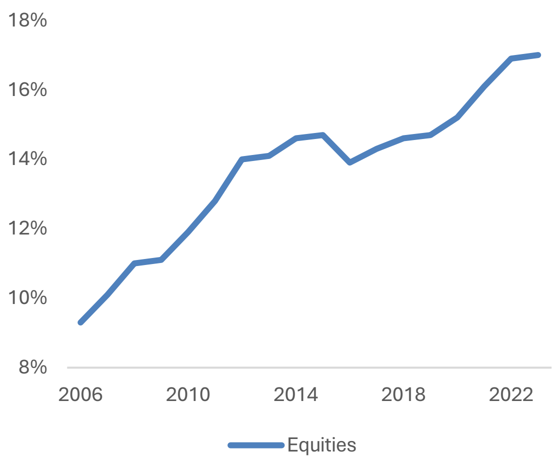
Potential implications for asset allocation

As briefly discussed above, one aspect of the current political turmoil that has come starkly into focus is the security aspects of the current international architecture. With the US questioning its commitment to NATO and imposing punitive tariffs on allies, this creates potential tail risks for non-US governments and investors that were previously almost unthinkable.

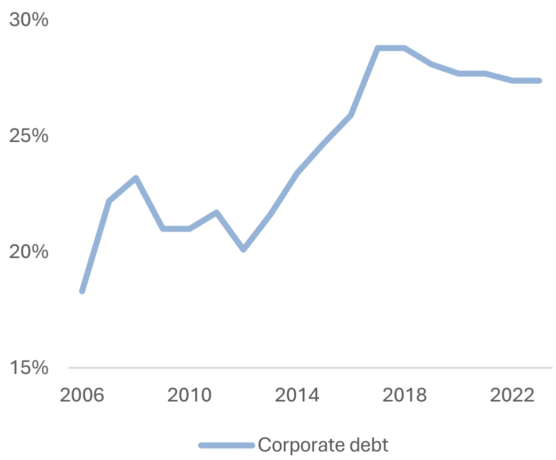
This could have longer-term repercussions on global asset allocations. Foreign ownership of US corporate securities (equity + debt) has risen substantially since the global financial crisis, as shown in the charts below. Benchmarks such as the MSCI World are also much more skewed towards US assets than they were 20 or 30 years ago (the US is now over 70% of the MSCI World vs. 42% in 2007).

Across the United States' allies, US capital markets have been a destination of choice in light of the high liquidity as well as the ecosystem of more advanced investment strategies such as private equity, and as of late, private credit. Underpinning the relative US overweight has been the near-convergence of the various countries' financial systems and the de-facto acceptance of the US as the world's financial capital. This bond is visible in the global dominance of US investment banks, private equity firms, and the fact that for most large Canadian corporates, the stock exchange is located on Wall Street as well as on Bay Street, with the latter exchange striving to stop an exodus of Canadian firms skipping Toronto altogether[16].

Foreign ownership of US equities: % of market cap[17]



Foreign ownership of US corporate debt: % of outstanding



[14] Associated Press, 3 March 2025. https://apnews.com/article/trump-gdp-economy-government-spending-lutnick-7414ba1bd441bd4bf64620bfd66923b2

[15] https://www.cbpp.org/research/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax-cuts; for a broader analysis, see Hope, David and Limberg, Julian (2020) The economic consequences of major tax cuts for the rich. III Working Papers (55). London School of Economics and Political Science, London, UK. This looks at data from 18 OECD countries. The paper is also discussed here: https://www.lse.ac.uk/research/research-for-the-world/economics/tax-cuts-for-the-wealthy-only-benefit-the-rich-debunking-trickle-down-economics

[16] https://financialpost.com/news/tsx-fights-stock-listings-canada-over-us

[17] Source for both ownership charts: Table 3, US Treasury et al. Foreign Portfolio Holdings of U.S. Securities, April 2024 (data as of June 30, 2023)

The current trade war puts this configuration in question. In the runup to the Canadian Liberal's leadership election, Mark Carney was walloped in attack ads for his role in the relocation of one of Canada's largest publicly traded companies, Brookfield Asset Management, from Toronto to the US. Along with the Buy Canada sentiment as a result of the Trump tariffs, calls are growing for an Invest in Canada movement with regards to the US$1.6 trillion in pension assets which the top eight pension plans (the 'Maple Eight') manage.

Following the recent developments regarding Ukraine, the sentiment in Europe is not that dissimilar from Canada. Europe is home to some of the world largest pools of assets – such as Norway's $1.8 trillion sovereign wealth fund (the world's largest) and the $1.7 trillion in Dutch pension funds (of which $1 trillion is in the top 5 funds). Could we see some of these big players pivot away from their current massive holdings of US assets?

We are seeing government spending start to take steps in this direction. The European Commission proposed on 19th March that the new EUR 150 billion defense fund spending should be restricted to EU companies and those from countries with defense accords with the bloc. Importantly, it is to exclude products that create key dependencies on third countries.[18] We are also seeing more European politicians calling for a renewed push for the Galileo navigation satellite system to mitigate dependencies on the US-based GPS system.

If assets do start to move, public market exposures are likely to be first. Canadian and European pension plans have hefty exposures in private equity and private credit, which cannot be easily divested anytime soon. Shifting public equity and bond portfolios would be a natural first step. The relative outperformance of European and Asian assets YTD, coupled with recent investor survey data, suggest that a shift out of the US markets and into Europe and Asia has already started, though it's not clear whether particular large investors have been involved. Will other markets start to command the same premium valuations as the US? Or will US valuations level down to valuations elsewhere? With US valuations near all-time highs, we think the latter is a real risk.

While existing private market exposures are hard to exit, a change in appetite for US assets would affect these markets too. Over 87% of private credit is originated in the US, with only 6% in Europe[19]. The majority of private equity is also in the US.[20] A slowdown in fund raising would challenge sponsors who have become used to persistent growth. Even absent a potential shift in views on the US, we have seen several central banks highlight risks in private markets in recent years.

The ample liquidity in the direct aftermath of the Covid pandemic helped spawn some of the largest vintages in private equity (as well as deal multiples at or near record levels[21]). In an environment of weaker public markets, slower exits, slower fund raising and shifts in geographic exposure preferences, monetization or refinancing could be a challenge. A slowdown could also highlight the risks of some of the return-enhancing financial wizardry that has become commonplace such as NAV loans (in which private equity sponsors borrow against the underlying investment portfolio to reduce the need for capital calls and thus enhance IRRs).

Private credit has grown from $100 billion in 2010 to over $1.2 trillion at the of 2024 (with over $1 trillion of that in the US).[22] It has never been tested as an asset class at the sort of size in prominence it holds today. However, recent examples of creditor-on-creditor violence[23] (euphemistically termed Liability Management Exercises) suggest a downturn is likely to prompt challenging scenes as sophisticated parties seek to protect their investments and take advantage of loose covenants, even where that comes at the expense of other creditors.[24] Secondary markets for private assets have grown substantially, but offloading stakes before maturity typically still involves selling at a discount even in benign times. During stress periods these discounts can grow substantially. With private markets having grown so much in recent years, a crisis could easily bring negative surprises.

[18] "EU locks out UK, US and Turkish arms makers from EUR150bn spending splurge", Financial Times, 20 March 2025

[19] The global drivers of private credit, BIS Quarterly Review, 11 March 2025

[20] Global Private Markets Report 2025, McKinsey

[21] https://www.bain.com/insights/the-private-equity-market-in-2020/

[22] The global drivers of private credit, BIS Quarterly Review, 11 March 2025

[23] https://www.hbs.edu/faculty/Pages/item.aspx?num=65920

[24] https://resonanzcapital.com/insights/when-creditors-collide-the-rise-of-creditor-on-creditor-violence

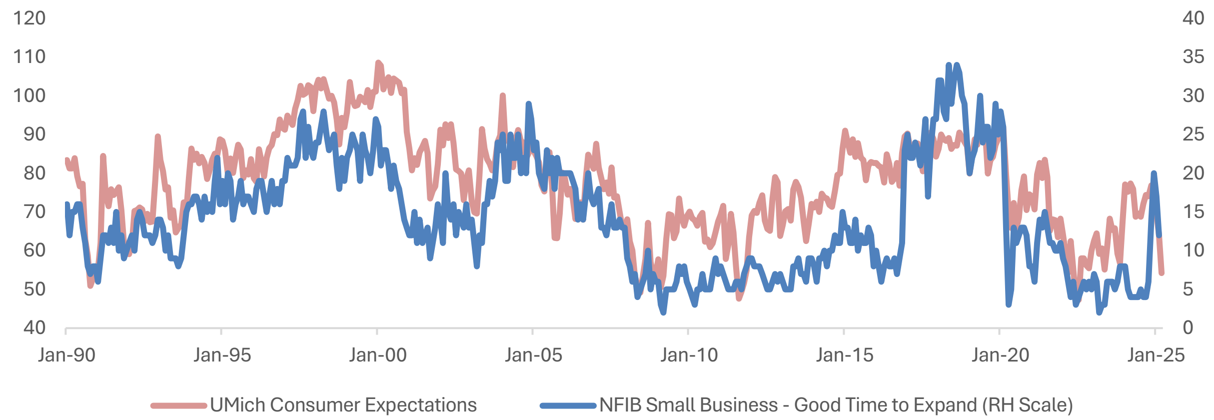
What are markets pricing in? Is there still time to make portfolio shifts?

In the months since the elections and shortly after the inauguration, stock markets mainly focused on the positive aspects of the Trump presidency while handily ignoring the market-unfriendly parts. Reference was made to Trump's first term, which started with surprisingly little market volatility. The main reason in hindsight was that the team had big plans and ideas but limited experience in governing and managing the bureaucracy. This had the effect that it was only able to implement policies with broad support across the Republican party and its supporters, notably major tax cuts targeted primarily at the wealthy.

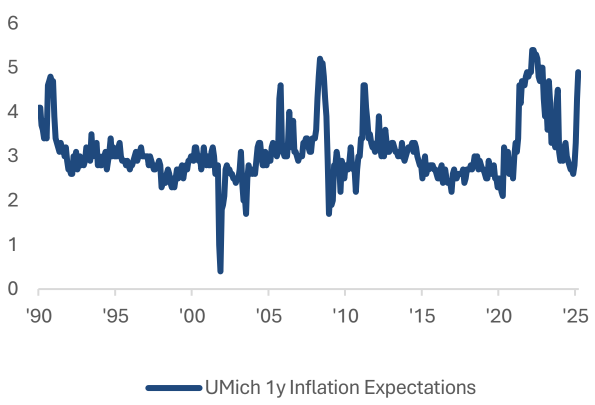
Interviews with and biographies of former administration officials make it clear that some of the more outlandish requests of Trump and his team were ignored, or responses deliberately delayed.[25] Similarly, the GOP majority in Congress was more independent of Trump and acted to restrain him. This meant that in Trump's first term many ideas stayed simply as rhetoric or Twitter posts. In his second term, there is a policy team ready to act.

But we are now seeing a change. Survey and positioning data, which had been on buoyant form immediately after the election, have turned lower. Consumer confidence has tumbled, with the latest confirmation the notably weaker University of Michigan report on Friday March 14th while expectations for future inflation have risen. The University of Michigan data show strong differences between Democrats and Republicans, but both the move lower in consumer sentiment and move higher in inflation expectations are also apparent in data from Independent voters.

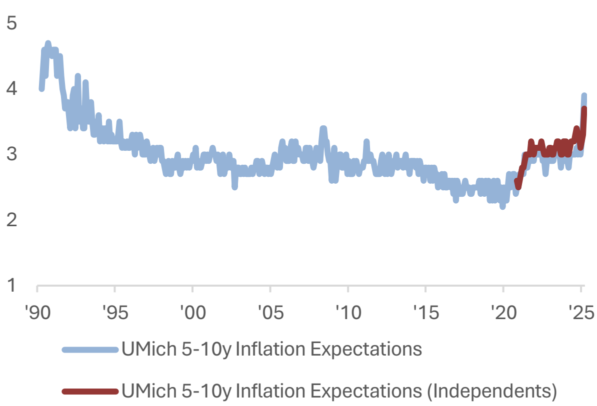
Consumer and business expectations[26]



1y inflation expectations



5-10y inflation expectations



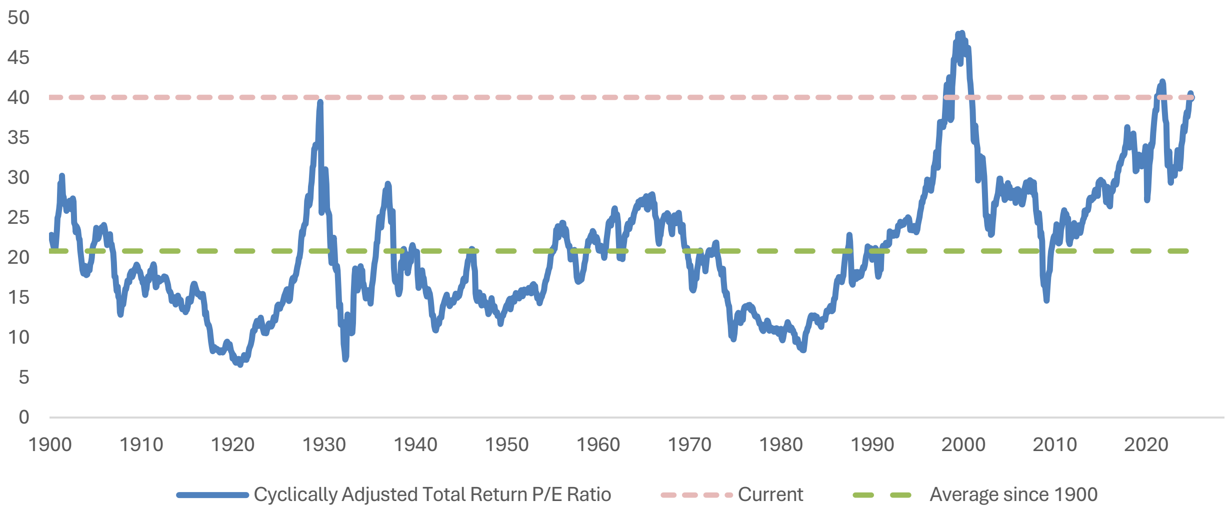
[25] For example, when Trump's team asked for military options to attack North Korea in 2017 and Iran in 2018 (https://edition.cnn.com/2020/08/06/politics/trump-advisers-fears-military-options/index.html)

[26] Source: Bloomberg. Latest data as of March 21, 2025.

Hard data tends to lag soft data, but we are seeing some early signs. We have hit a new record in US household debt and delinquency rates are rising in various borrowing categories,[27] as shown in the charts earlier in this piece.

Markets now appear to be taking notice, but the moves so far have been small, with the S&P 500 only down around 3% YTD. Valuations remain lofty, and expectations high. Several non-US markets have rallied strongly, with the Euro Stoxx 50 up over 15% and the Hang Seng up over 20%.

Cyclically-adjusted total return P/E ratio – S&P Composite[28]

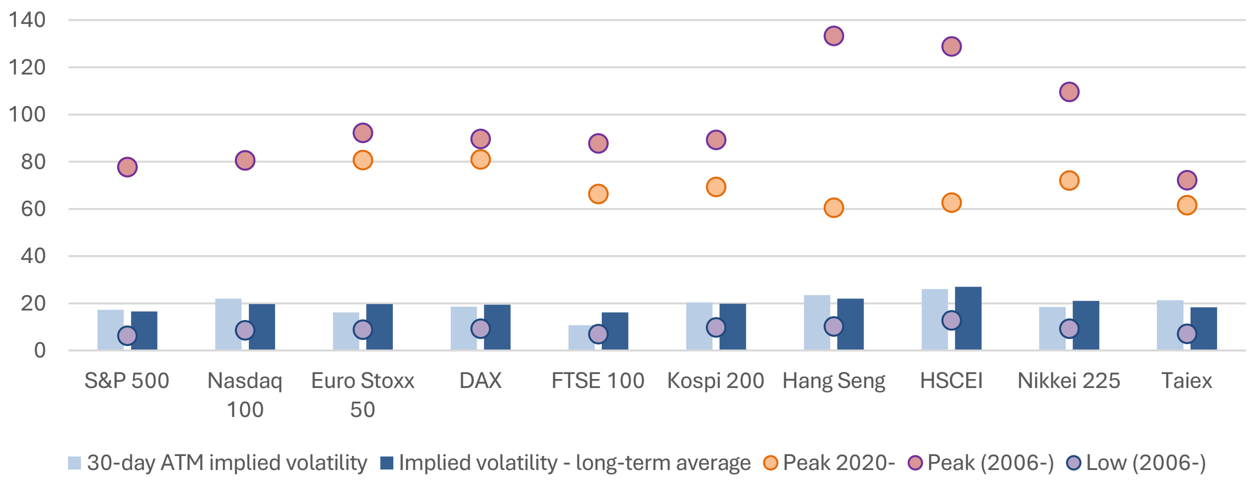


Investors still appear to be taking comfort from Trump's reported focus on the stock market as a barometer of success as he did in his first term – but both Trump and key officials have been dismissive of the recent sell-off. There are signs that Trump is now perhaps more focused on his legacy. After the worst down week for the S&P 500 since September, on Sunday March 9th he commented that: "You can't really watch the stock market. If you look at China, they have a 100-year perspective. We have a quarter. We go by quarters."[29] A few days later, Treasury Secretary Scott Bessent noted that "corrections are healthy, they are normal… I'm not worried about the markets."[30]

So far, the public markets have held up relatively well, as declines remained orderly with the highest day-to-day movement in the S&P 500 being the -2.7% decline on Monday March 10th. This feeds to the still muted levels of implied volatility, with little capitulation (if any) in short volatility positions (and even the recent launch of a new short VIX ETN).[31] Overall, since the start of March implied volatilities have notably declined on a same-strike basis. Markets often experience these periods of recovery before big moves, and it takes time to interpret events. While we are not suggesting a comparable crisis is imminent, it's always worth remembering that in 2008 the S&P 500 was relatively stable in the days following the bankruptcy of Lehman Brothers – before it then fell dramatically.

[27] https://www.bloomberg.com/news/articles/2025-02-13/us-consumer-debt-delinquency-hits-highest-in-almost-five-years
[28] Sources: Robert Shiller / Yale University, True Partner. As of February 2025.
[29] Trump interview with Fox News, 9 March 2025: https://www.youtube.com/watch?v=wQ0vjc8UzDw
[30] Bessent interview with NBC, 16 March 2025, as quoted by Bloomberg
[31] JP Morgan redesigns short volatility ETNs, https://www.tradersmagazine.com/news/j-p-morgan-redesigns-short-volatility-etns/

30-day at-the-money implied volatility vs history, major equity indices (March 19, 2025)



Over the past 15 years, investors have increasingly gotten accustomed to the "buy the dip" phenomenon, especially in US markets. This was a winning trade as markets continually recovered as market volatility never threatened the financial and political world order, as American Exceptionalism lived on.

But in the current environment where both longstanding democratic governing conventions in the United States and the post-Cold War economic and political order can no longer be taken for granted, many portfolios and investors could be caught off guard as a major change may start gradually but could grow into an avalanche. We expect persistently higher volatility ahead as policy changes play out globally and investors revisit long-held assumptions. The risk of a major correction also appears elevated.

Volatility strategies can play an important protective role

How can investors navigate this degree of uncertainty? We believe that volatility strategies that exhibit convexity can play diversifying and defensive roles in fortifying investment portfolios against uncertainty. Firstly, outright downside protection including tail hedges are currently still relatively cheap across equity markets, but as always there is a lot of value to add in choosing the right hedges and managing them actively and appropriately. Secondly, the nearly 14-year track record of our flagship True Partner Fund shows that its relative value volatility strategies can provide alpha to portfolios and negatively correlated returns in times of market turmoil. This can play a valuable defensive role for investors who are looking to mitigate the risks of heightened equity market volatility but who prefer absolute return strategies rather than pure tail hedges. For some investors the right answer will be between these two choices, and we have experience here too. We can combine our relative value strategies with larger long volatility positions and/or with customized tail hedges, targeting both absolute returns and high convexity in tail events. With the macro backdrop suggesting heightened risks but pricing still favorable, we believe this is a great entry point for investors to seriously consider an allocation to volatility strategies.

True Partner Capital was established in 2010 by a team of former options market makers and has offices in the US, Europe and Asia. True Partner manages relative value and directional volatility strategies on behalf of a global investor base and offers both commingled and customized portfolios. Customized solutions can be tailored to clients' individual portfolio exposures, for example for tail risk hedging.

For further information, please contact investorrelations@truepartnercapital.com

Disclaimer

Data as of March 2025 unless indicated otherwise. Sources are noted in footnotes; additional data sourced from True Partner, Bloomberg, Goldman Sachs, Bank of America. Chart data is from Bloomberg / True Partner unless noted above. Data sourced from third parties is believed to be accurate, but no representations are made as to its accuracy. This document has been prepared and issued by True Partner Advisor Limited ("True Partner"). True Partner Advisor Limited is a CFTC registered Commodity Pool Operator and Commodity Trading Advisor. Its affiliates include True Partner Capital USA Holding, Inc., a SEC registered Investment Adviser and True Partner Advisor Hong Kong Limited, a Hong Kong SFC licensed Type 9 Asset Manager. This piece is being provided by True Partner Advisor Limited, not its affiliates. This presentation is confidential, is intended only for the person to whom it has been provided and under no circumstance may a copy be shown, copied, transmitted, or otherwise given to any person other than the authorized recipient without the prior written consent of True Partner. Nothing herein constitutes an offer to sell, or solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment strategy or vehicle. Past performance does not guarantee or indicate future results. There is no guarantee that the objectives of any investment strategy will be achieved.

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