



Financial market serial monogamy has been in full force in recent years. Today it's the war in Iran. Yesterday it was AI. Last year it was tariffs. Each narrative becomes all-consuming, driving sentiment and headlines. Then, just as quickly, attention shifts. This singular focus exposes investors to a drastic over-simplification of a complex and interconnected global economy.

The current fixation on Iran is a case in point. Markets have responded predictably: oil prices have surged and volatility has spiked. Inflation expectations are being repriced higher as energy shocks ripple through economies, with central banks acknowledging a renewed tilt toward inflation risk. The dominant narrative is straightforward: geopolitical escalation equals risk-off.

But that framing is far from complete.

Second and third order effects must be considered. Within the Iran narrative, the most significant consequences may lie beneath the surface. Disruptions to the Strait of Hormuz, through which roughly 20% of global oil supply flows, are not just a supply shock, but a catalyst for long-term energy security investments, defense spending, and infrastructure buildout. What begins as a geopolitical event serves to reinforce a multi-year capex cycle spanning energy, logistics, and national security.

A similar dynamic existed with tariffs. While the market reduced tariffs to a binary growth headwind, the broader implications ran deeper. Protectionism actually accelerates shifts to industrial policy, reshoring, and supply chain security; forces that are inherently capital intensive and reflationary. These policies intersect with fiscal expansion, as governments deploy subsidies and incentives to secure strategic industries and stimulate growth. The net impact on global growth differs greatly from rudimentary economics 101 "deadweight loss" calculations.

The risk for investors is clear: by anchoring to a single storyline, they miss the feedback loops. Markets are not driven by isolated shocks, but by the interaction of forces - geopolitics, policy, innovation, capital flows and many other factors. A binary view obscures these interactions, fostering tunnel vision at precisely the wrong time.

Portfolio strategy, therefore, cannot be dominated by geopolitical risk, even when it feels all-encompassing. Geopolitics certainly matter, but more often than not, flare-ups produce buying opportunities rather than prolonged bear markets. Adding portfolio hedges is a prudent approach to counterbalance elevated risks without abandoning longer-term structural trends.

In our view, the most effective defense is structural: avoid concentration risk, remain

broadly diversified and keep portfolios aligned with underlying growth drivers. Because while markets may fall in and out of love with singular narratives,

long-term returns are driven by a far wider set of forces which reassert themselves once the spotlight has moved on.

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## Cash and Currencies

### Maintaining cash and gold bullion levels

- Elevated geopolitical and economic risk necessitates maintaining portfolio hedges.
  - Gold bullion has performed poorly since the start of the Iran war (likely as investors sold recent “winners”); but appears to have found support near the \$USD 4,400 level.
  - Cash levels remain neutral, while gold bullion exposure has been maintained in balanced and growth-oriented strategies this quarter.
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## Global Equities

### Modestly increasing equity overweight

- The outset of war in Iran has led to some indiscriminate selling of risk assets, as an oil price shock feeds stagflation fears.
- While risks to global growth are elevated, we ultimately expect markets to stabilize and constructive underlying macro trends to reassert themselves.
- We have modestly increased equity exposure in client portfolios.

### Adding equal-weight US equity exposure

- Concentration risk is elevated in the US equity market, as the top 10 holdings in the S&P 500 Index now have an aggregate weight of over 35%.
- Simultaneously, massive AI-related capital expenditures are transforming the business models of a number of the top companies from asset-light to asset-heavy, which may necessitate more conservative valuation multiples looking forward.
- We are shifting a portion of our large cap US equity exposure from market capitalization-weighted to equal-weighted this quarter.

## Global Fixed Income

### Remaining underweight fixed income

- The recent spike in oil prices has caused a surge in long-term bond yields, as bond investor attention shifted to inflation risk and a potential hawkish pivot from central banks.
  - The moves bring global bond yields closer to fair value in our view, but investment grade bonds in developed markets still lack a clear catalyst to warrant taking on more exposure.
  - Fixed income exposure remains modestly underweight this quarter.
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## Opportunity Investment Highlights

### Adding to Swedish equities

- Swedish growth indicators continue to firm, showing the economy is entering an upswing phase.
- Lower interest rates are feeding into domestic demand, while rebounding European industrial activity and accelerating defense spending have underpinned a steady rise in new orders.
- We have added to an existing position in Swedish equities in balanced and growth-oriented strategies this quarter.

### Trimming exposure to Chinese internet equities

- Chinese internet equities have exhibited weakening momentum of late.
- A moderating policy backdrop and large AI-related capital expenditure commitments have tempered investor enthusiasm.
- We have trimmed exposure to Chinese internet equities in balanced and growth-oriented strategies this quarter.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
<b>NET GLOBAL ASSET MIX</b>				
Cash		⬇️		⊖ Unchanged
Total Equity			⬇️	⬆️ Increased
Total Fixed Income	⬇️			⬇️ Decreased
Commodities			⬇️	⊖ Unchanged
<b>CANADA INVESTMENTS</b>				
Bonds		⬇️		⊖ Unchanged
Stocks		⬇️		⊖ Unchanged
<b>U.S. INVESTMENTS</b>				
Bonds	⬇️			⬇️ Decreased
Stocks	⬇️			⬆️ Increased
<b>INTERNATIONAL INVESTMENTS</b>				
Bonds	⬇️			⊖ Unchanged
Stocks			⬇️	⊖ Unchanged

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