YAD CAPITAL AG
INVESTMENT ADVISORY

YAD HOUSE VIEW

November 2024

Welcome

Dear Reader,

This report provides an overview of our current allocation strategies in light of shifting economic indicators. We discuss our increased investment in fixed income and examine the impact of new measures promised by the Trump administration, such as tariffs, migration limits, and tax-reducing fiscal stimulus. Our commitment to balancing stability with strategic opportunities remains firm as we navigate the market to achieve our clients' goals. Enjoy the read!

Your faithfully,

Dan Stemmer
Partner

Ygal Abergel
Managing Partner

Damjan Csiba, CFA
Portfolio Manager

What changed in our active allocations?

Equity - Geography

We did not change our geographical equity allocation.

Equity - Sector

We reduced our position in Healthcare from Overweight to Underweight and increased Financials from Underweight to Overweight. We are pessimistic about US healthcare stocks following Robert F. Kennedy Jr.'s nomination by Trump as the next Secretary of Health. Kennedy is a vocal critic of big pharmaceutical companies, opposes wasteful healthcare spending, and aims to lower prices. We expect Trump to ease banking regulations, which would benefit financial institutions.

Fixed Income

Our *Growth Portfolio* has an average yield to maturity (YTM) of 5.17 and 8.54 modified duration.

Our *Yield Portfolio* has an average average YTM of 5.28 and 6.71 modified duration.

Our *Return Portfolio* has an average yield to maturity of 4.87 vs. 6.85 modified duration.

The markets expect higher inflation and interest rates under the Trump administration, leading to a recent spike in yields. We're maintaining a well-diversified, relatively long-duration fixed income portfolio across short, mid, and long-term bonds. We believe the job market is softening, and the 2% inflation target will be met or nearly achieved by 2025, which could prompt significant Fed rate cuts. Our holdings are made up of mainly investment grade bonds from developed countries with small exposure to bonds from emerging markets. The average credit rating according to S&P's methodology is BBB+ for Yield and Growth while A- for Return.

Alternatives

We did not change our alternatives allocation.

Our current active allocations

Asset Class	Overweight	Underweight
Equity - Geography	India, Israel, France, UK and Switzerland	Australia, Japan and United States
Equity - Sector	Consumer Staples and Discretionary, Energy, Utilities and Financials	IT, Communications, Healthcare and Real Estate

Index Returns

YTD 2024

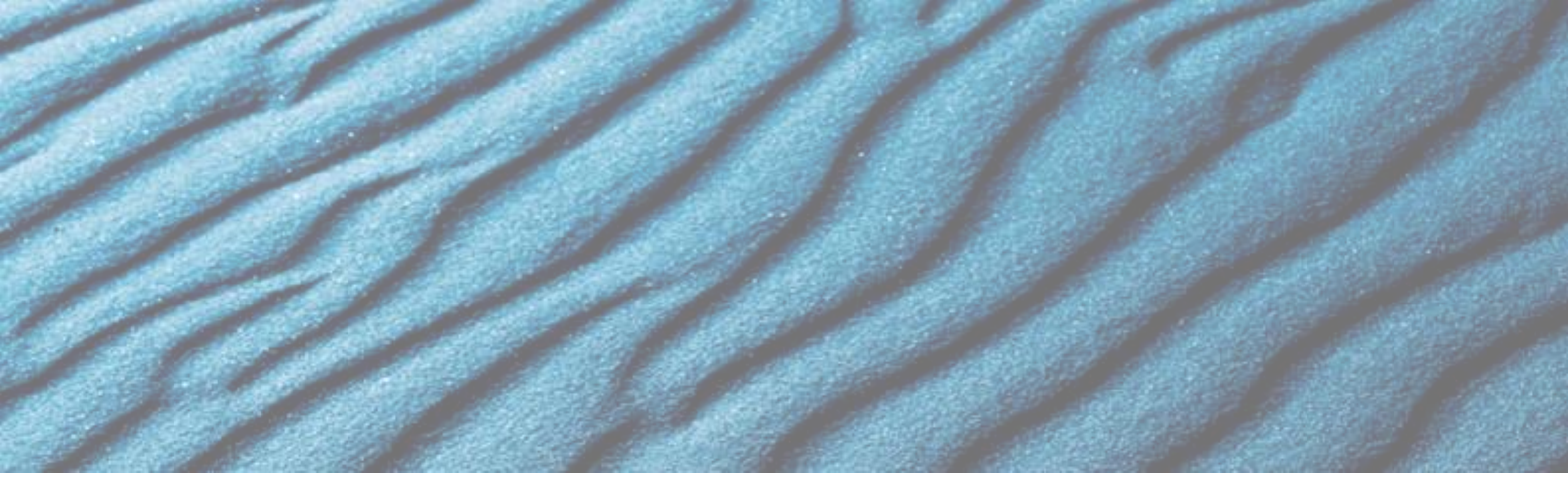
Equity	YTD Performance
Euro STOXX 50	9.15%
Tel Aviv 125	20.77%
Nasdaq 100	21.78%
S&P 500	24.57%
SPI - 214 Swiss stocks	6.17%

Fixed Income	YTD Performance
Global Crp High Yield	7.29%
US Treasury 7-10Y	0.08%
Emerging Market ($)	6.78%
$ Investment Grade	1.58%
€ Investment Grade	2.24%

Alternatives	YTD Performance
Global Hedge Fund Index	4.91%
Gold	29.20%
Crude Oil	0.07%
Bitcoin	131.38%
Global Real Estate	8.30%

Currencies	YTD Performance
USD/ILS	2.96%
USD/CHF	4.99%
USD/JPY	9.25%
GBP/USD	-0.76%
EUR/USD	-4.58%

As of Thursday, 21 November 2024, 4pm CET



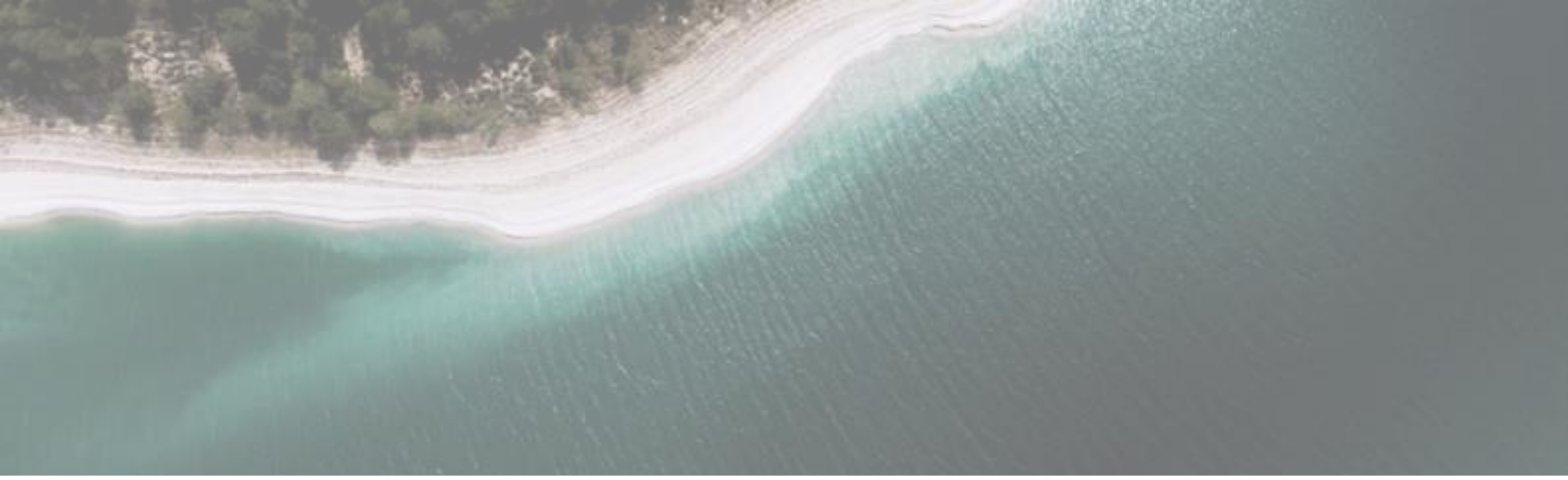
Impact of the Trump Administration

Are tariffs indeed inflationary?

The market views the Trump administration's policies as inflationary due to increased fiscal spending, restrictions on immigration, and tariffs. Excessive fiscal indiscipline is clearly inflationary, as it fuels unsustainable demand growth and, consequently, GDP expansion when government spending outpaces revenue. In 2023, the U.S. ended the year with a debt-to-GDP ratio of 122.3% and a government budget deficit of 6.5%, with little indication that this is seen as problematic by policymakers. While the US can sustain higher debt and deficits longer than other countries, this path is ultimately unsustainable. Eventually—and likely sooner rather than later—the government will need to adopt more disciplined spending, especially with interest rates remaining elevated for an extended period. The head of the newly set up Department of Government Efficiency (DOGE), Elon Musk said at a Trump rally at Madison Square Garden in October that the federal budget could be reduced by at least $2 trillion. The implementation would be deflationary, especially if the US increases oil production as Trump plans or the Russia-Ukraine war comes to an end. The stronger USD dampens inflation too. These are positive scenarios. Restricting immigration or deporting residents could dampen GDP growth, as it would decrease demand, which is deflationary. However, limiting the labor supply can also drive up wages by strengthening job seekers' negotiating positions, which can be inflationary.

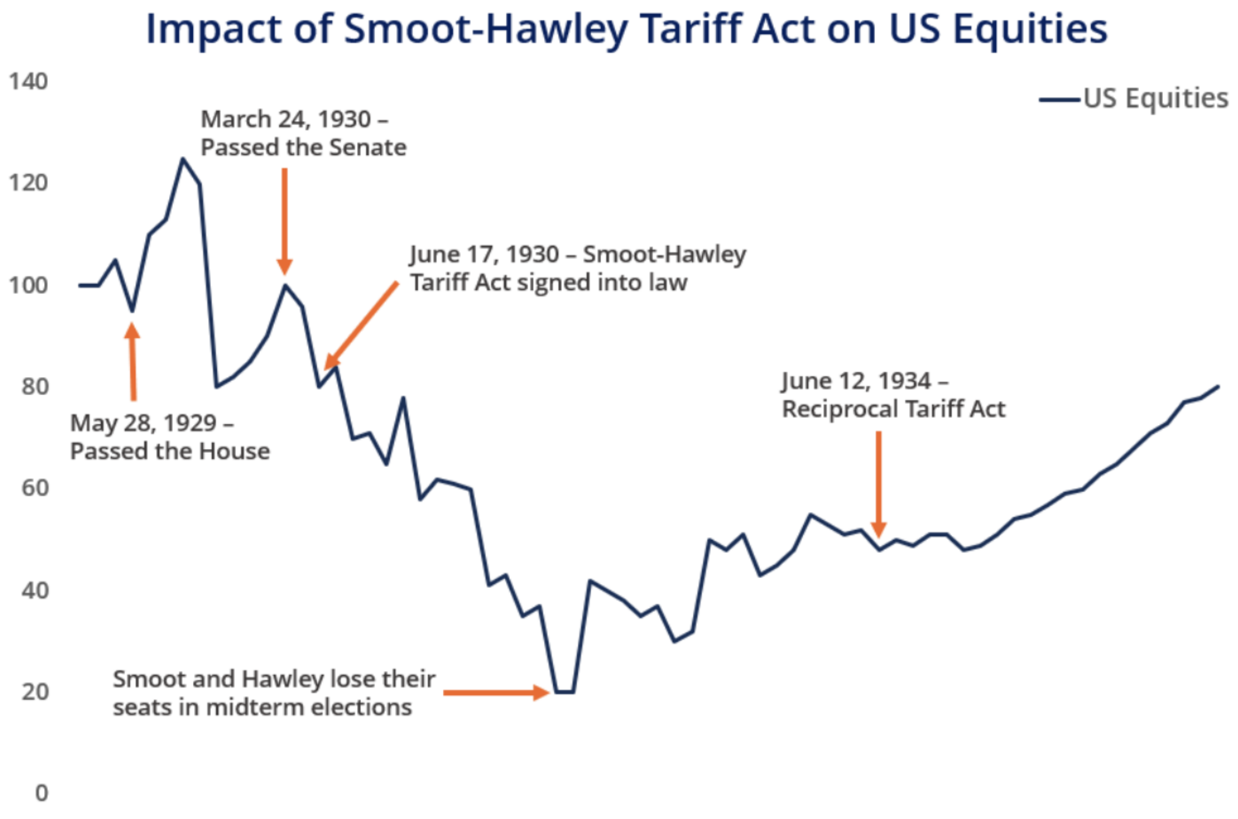
The impact of tariffs is uncertain. On one hand, tariffs make imports more expensive, and the U.S. imports significantly more than it exports, with $352 billion in imports and $268 billion in exports recorded in September. Major trading partners, such as China and the EU, are likely to impose similar tariffs on U.S. goods, which could reduce American exports. This may be inflationary in the short term, but if businesses eventually need to lay off workers due to declining export demand, it could lead to higher unemployment, lower demand, slower growth, or even recession and deflation.

A historical example is the Smoot-Hawley Tariff Act of 1930, which raised U.S. tariffs sharply to protect American farmers during the Great Depression. This led to a sharp decline in U.S. exports, from $7 billion in 1929 to $2.5 billion in 1932, with farm exports down by one-third by 1933 and international trade dropped by 65%. (Corporate Finance Institute, 2024) It deepened the depression and contributed to a roughly 10% deflation in the early 1930s. Tariffs disrupt efficiency, causing misallocation by preventing economies from focusing on areas where they are most productive.



What could it mean for the equity market?

Using 1929 as the starting point of the Great Depression may not be the best comparison, as many other factors were at play. However, let's continue with this example of a time when a global trade war began. After the Tariff Act passed the House of Representatives, there was initially a stock market rally. But as the implementation of the law drew closer, stocks began to decline, and once the act was signed into law, the market experienced a sharp downturn. Optimism returned only after the Republican Senator Smoot and Representative Hawley lost their seats in the midterm elections. Later, when Democratic President Roosevelt signed the Reciprocal Tariff Act, which liberalized American trade policies, it marked the end of the Great Depression. This was followed by a period of strong economic growth and a return to healthy levels of inflation.



Source: Smoot-Hawley Tariff Act, https://corporatefinanceinstitute.com/

Closing Thoughts

Our active allocations have remained largely consistent, reflecting our confidence in our current strategy amid evolving economic indicators. Within the Yield portfolio, we increased our allocation to short- and medium-term investment-grade fixed income, while we changed our equity allocation in the Yield and Growth portfolios by reducing US Healthcare and increasing US Financials.

We are closely monitoring developments to better understand which of Trump’s promises will be realized and how the U.S. plans to negotiate deals with the EU, China, and other major players. Our base case assumes that extreme measures, such as a 60% tariff on all Chinese products or a 10% tariff on imports from all countries, are primarily negotiation tactics and will not be fully implemented, as they would likely harm the U.S. economy. Similarly, we anticipate that migration policies will only be partially executed. If Musk`s DOGE succeeds in enhancing government efficiency, it could pave the way for more sustainable growth, providing an additional tailwind to the economy.

In conclusion, our allocations reflect a deliberate balance between stability and seizing strategic opportunities. We remain vigilant and adaptable, ready to adjust our strategies in response to market developments to continue delivering on our clients' investment goals.

Good Investing.

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