YAD CAPITAL AG
INVESTMENT ADVISORY

YAD HOUSE VIEW

May 2025

Welcome

Dear Reader,

In this report, we outline our latest market insights and strategic adjustments. Our focus this month includes increased exposure to European and Industrials equities, and investments in US high-yield bonds.

We are excited to share our perspectives with you.

Your faithfully,

Dan Stemmer
Partner

Ygal Abergel
Managing Partner

Damjan Csiba, CFA
Portfolio Manager

What changed in our active allocations?

Equity – Geography

We reduced our exposure to Indian equities due to the heightened risk of escalating conflict with nuclear-armed Pakistan. Given the high valuations of Indian stocks, we prefer not to compound that exposure with additional geopolitical risk. Simultaneously, we further increased our overweight position in European equities. We are optimistic about the Eurozone as it is set to begin simultaneous fiscal and monetary policy easing, alongside significantly lower equity valuations compared to its global peers.

Equity – Sector

We did not change our geographical equity allocation. Our significant reduction in exposure to Healthcare and Energy earlier proved to be the right decision. Trump announced plans to cut drug prices in the US, while OPEC+, along with other major oil producers like the US, continues to increase oil production at a pace that demand cannot keep up with.

Fixed Income

Our *Growth Portfolio* has an average yield to maturity (YTM) of 5.54 and 8.46 modified duration. Our *Yield Portfolio* has an average average YTM of 5.77 and 6.94 modified duration. The Investment Committee has decided to reduce our allocation to short-duration US corporate bonds and reallocate the proceeds into high-yield US corporate bonds within the Yield Portfolio. We are optimistic about US high-yield bonds due to their low default rates. We maintain a diversified, relatively long-duration fixed income portfolio, spanning short, mid, and long-term bonds. We anticipate a softening job market, and the inflation is at 4-year low, with the current strict monetary policy leaving room for potential rate cuts. Our portfolio primarily consists of investment-grade bonds from developed markets, with limited exposure to emerging market and high-yield bonds. According to S&P's methodology, the average credit rating is BBB for the Yield Portfolio and BBB+ for the Growth Portfolio.

Alternatives

We did not change our alternatives allocation.

Our current active allocations

Asset Class	Overweight	Underweight
Equity - Geography	Developed Markets in general, Eurozone, Switzerland and Israel	Emerging Markets in general, India, UK Australia, Japan and United States in Yield
Equity - Sector	Industrials, Utilities, Consumer Staples and Discretionary	Communications, Energy, Financials and Real Estate

Index Returns

YTD 2025

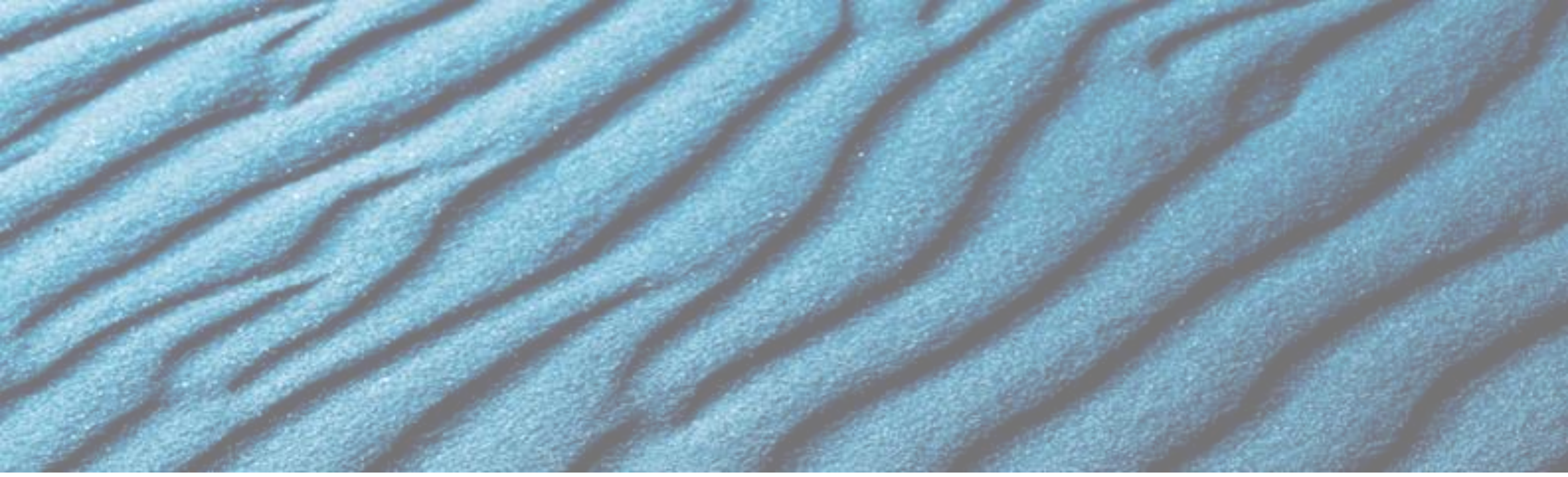
Equity	YTD Performance
Euro STOXX 50	13.42%
Tel Aviv 125	10.35%
Nasdaq 100	1.72%
S&P 500	1.10%
Swiss Performance Index	9.54%

Fixed Income	YTD Performance
Global Crp High Yield	3.84%
US Treasury 7-10Y	2.97%
Emerging Market ($)	2.50%
$ Investment Grade	1.46%
€ Investment Grade	0.10%

Alternatives	YTD Performance
Global Hedge Fund Index	0.10%
Gold	22.22%
Crude Oil	-12.16%
Bitcoin	10.68%
Global Real Estate	3.09%

Currencies	YTD Performance
USD/ILS	-2.32%
USD/CHF	-7.95%
USD/JPY	-7.58%
GBP/USD	6.32%
EUR/USD	8.24%

As of 16 May 2025, CET 11:20am



Why We Favor Industrials

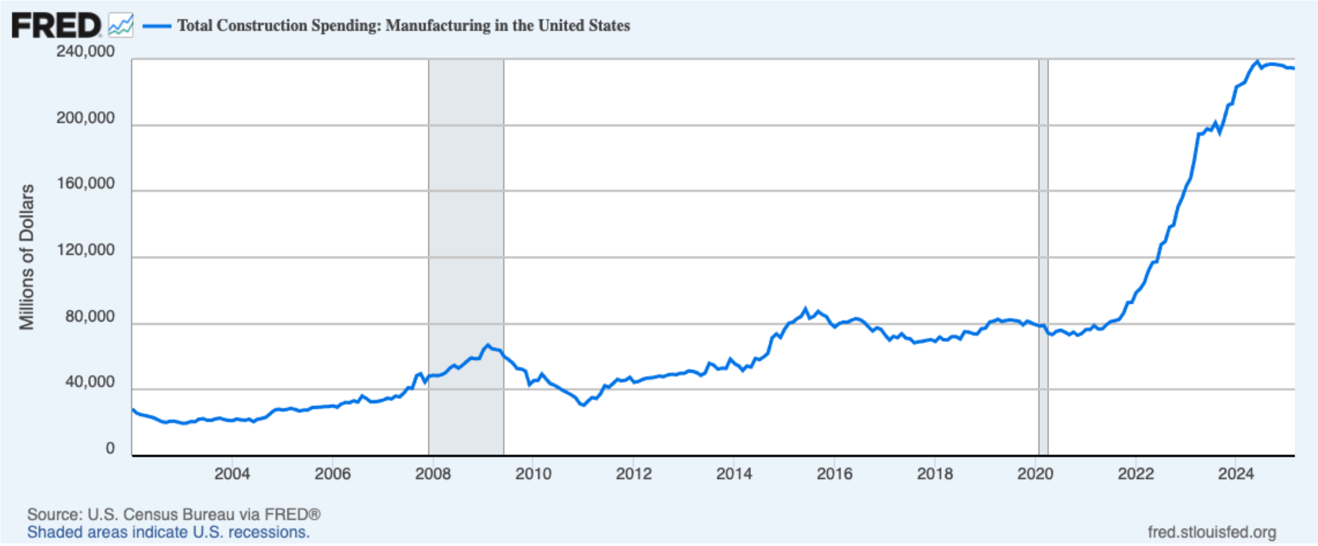
The accelerating demand for electrification and energy, driven by the rapid expansion of AI and data centers, positions Industrials for substantial revenue and earnings growth. Furthermore, global infrastructure investments and the potential for peace in Ukraine are expected to bolster this sector.

In the United States, new policies aimed at reshoring manufacturing further strengthen the case for Industrials. The anticipated return of a Trump administration may bring incentives for domestic capital expenditures (CAPEX) through tax credits, extending beyond the current tariff structure. We also foresee a relaxation of capital requirement ratios for banks, aligning with Trump's preference for less regulation. This would enable banks to support large-scale CAPEX projects for reshoring with greater access to affordable credit.

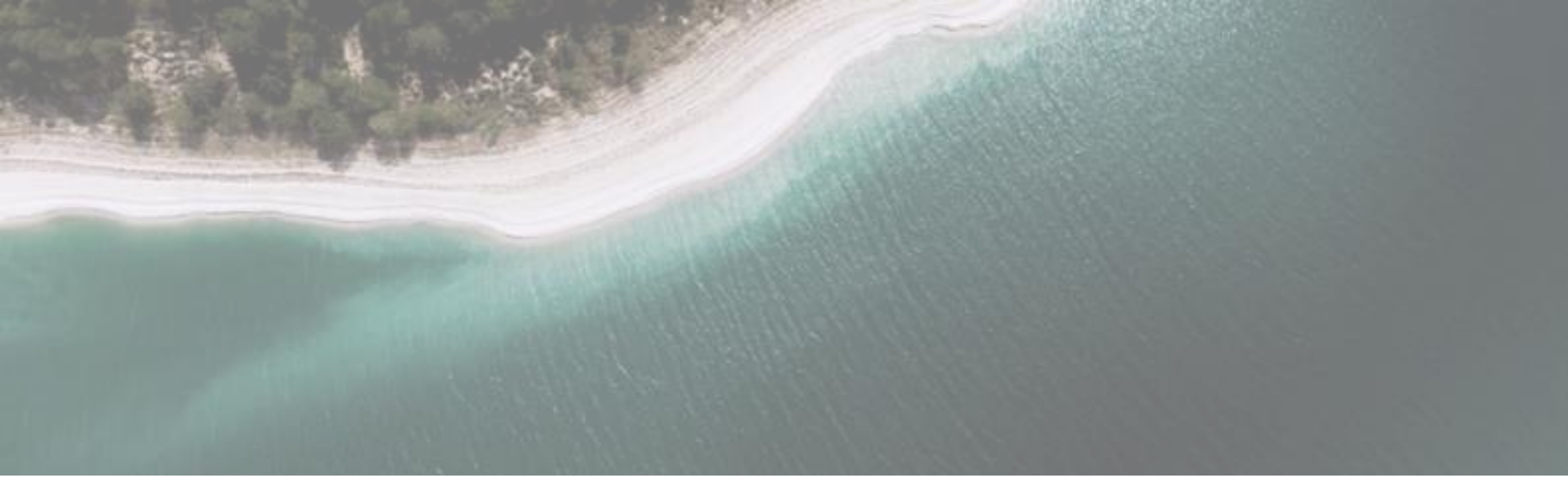
In Europe, fiscal and monetary policy easing is set to act as a strong tailwind for Industrials, particularly with a focus on infrastructure and military spending. This synchronized global support enhances our positive outlook on the sector.

The chart below shows a surge in construction spending in the US manufactory that indicates strong future demand for industrial goods, expanded production capacity, and a robust supply chain, all of which are bullish for industrial stocks. Increased CAPEX signals confidence in long-term growth, boosting revenue prospects for companies in this sector.

Chart 1: Surge in U.S. Manufacturing Construction Spending



Source: Total Construction Spending: Manufacturing in the United States, https://fred.stlouisfed.org/series/TLMFGCONS#



Why we like Europe?

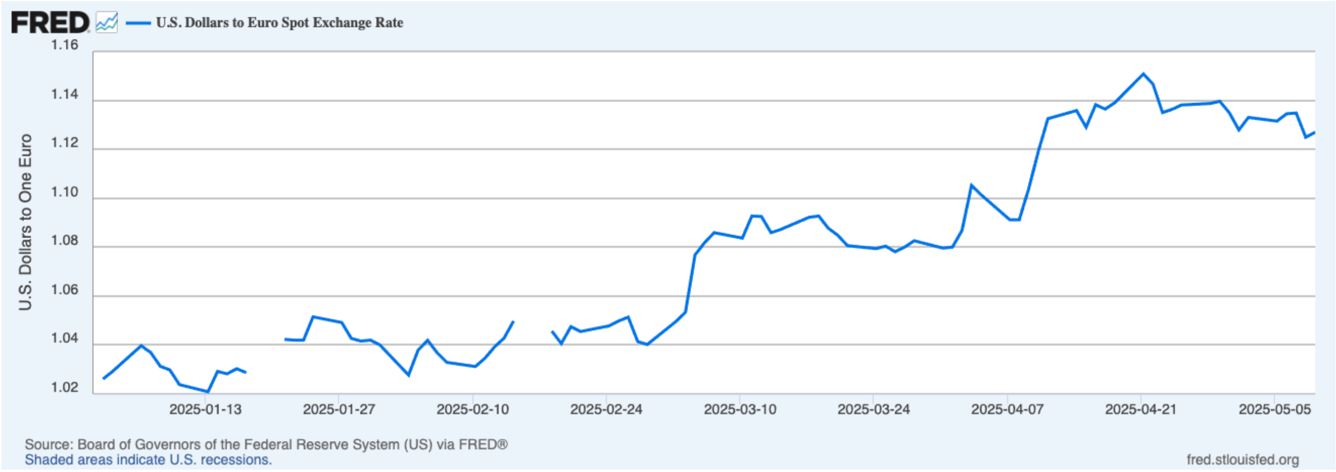
The suspension of Germany's debt brake will unlock hundreds of billions of euros for military and infrastructure investments. This fiscal expansion, along with similar measures announced by other major European economies and the European Union itself, is expected to boost not only individual sectors but entire supply chains across the region.

Additionally, the current geopolitical landscape, including US tariff policies and Trump's strategic shift away from European military support, signals that Europe may need to rely more heavily on its own defense capabilities. This realization, coupled with potential US deregulation, increases the probability of Europe undertaking its own regulatory easing to remain competitive.

From a valuation perspective, European equities are significantly cheaper than their US counterparts, presenting an attractive investment opportunity as we expect this valuation gap to narrow. The Euro has demonstrated remarkable resilience during market shocks, outperforming the US dollar after the recent tariff announcements. We anticipate continued strength in the EUR in the near term, with potential for further appreciation.

Moreover, the Eurozone's debt-to-GDP ratio remains considerably lower than that of the US, coupled with much lower interest rates. The region’s synchronized fiscal and monetary policy easing is set to provide substantial support for European equities, strengthening our conviction in this allocation.

Chart 2: EUR.USD spot exchange rate



Source: U.S. Dollars to Euro Spot Exchange Rate, https://fred.stlouisfed.org/series/DEXUSEU#

Closing Thoughts

Thank you for reading the YAD House View – May 2025.

As always, we are here to discuss these insights and their implications for your portfolio. We appreciate your trust in YAD Capital and look forward to navigating the next chapter of market opportunities together.

Warm regards,

The YAD Capital Team

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