Markets
& Convictions

August 2026

RJ Management

THE RETURN OF CONSTRAINTS

For several decades, Western economies have benefited from an exceptional environment: abundant energy, globalized supply chains, secure trade routes, low inflation, and a steadily declining cost of capital.
That world is fading.
Debt now limits governments’ room to maneuver. Geopolitical tensions are weakening trade routes. Reindustrialization requires massive investment. And artificial intelligence is driving explosive demand for semiconductors and energy.
All these shifts share a common thread: they are reintroducing constraints into an economy that had been built to eliminate them.

U.S. DEBT: AN INCREASINGLY NARROW MARGIN FOR MANEUVER

- We have regularly discussed the trajectory of U.S. debt in these pages since 2020. Since then, far from stabilizing, the situation has only deteriorated, with one significant change.
- Since 2020, and even more so since 2024, the United States has been financing a colossal share of its deficit with 1-year bills rather than 10-year or 30-year bonds.
- This strategy offers more flexibility, since it allows debt to be financed at a short-term rate set by the Fed rather than the long-term rate, which is usually higher and reflects inflation expectations.
- But this comes with a difficult direct consequence: over the next 12 months, the United States will have to refinance 8 trillion dollars of maturing debt!
- An interesting parallel with a consumer’s situation: the US has issued more very short-term debt for good reason — a bit like being forced to rely on your credit card because no one will give you a 5-year consumer loan.
- This means that if and when the Fed raises its policy rates, the cost of this debt will rise faster and harder: the current average coupon on existing debt is 3.3%, compared with the 2-year market rate of 4.3%
- That is 1% more to pay on USD 8 TLN, i.e. an extra USD 80 billion to finance… on top of the annual deficit of USD 2 TLN!!!!
- To pay this growing cost, the only solution is to borrow even more
- We end up with this “vicious” loop: higher policy rates ➔ higher deficit ➔ money creation ➔ higher inflation … and it starts all over again

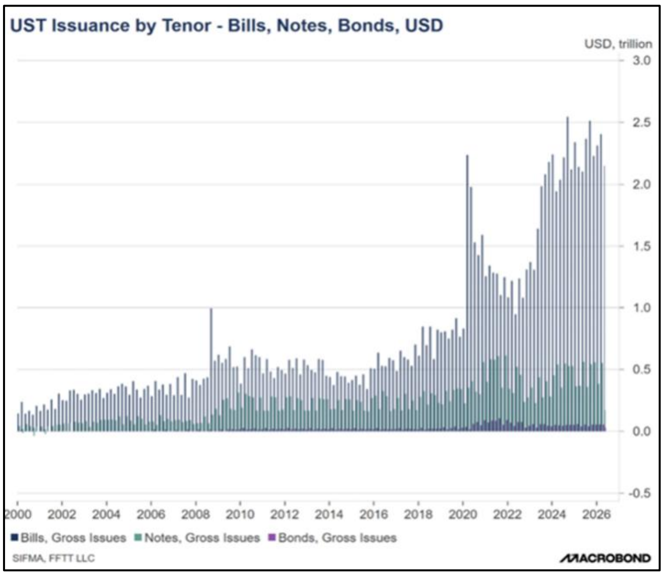
__Portfolio implications__

In the short term, tighter monetary policy (higher rates) can support the dollar.

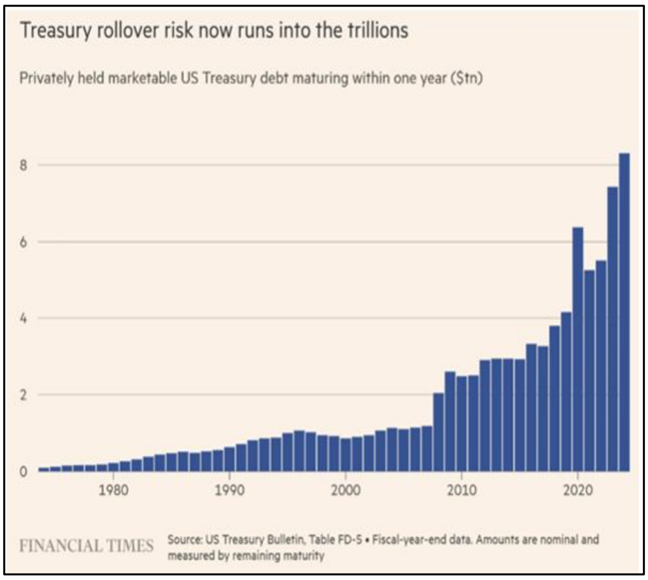
In the medium term, mounting deficits, rising interest expense, and doubts about debt sustainability remain, in our view, negative for the US dollar.

This is one of the reasons we have held gold and gold-mining companies in portfolios since 2022. We also favour short duration in fixed income portfolios to reduce sensitivity to a rise in long-term rates.

Significant increase in the use of Bills (1-year maturity)



Over the next 12 months the US will need to refinance USD 8 TLN of debt



This fiscal fragility is not just a matter of numbers: it also has a geopolitical dimension.

THE END OF THE GEOPOLITICAL DIVIDEND

- For more than thirty years, the world's economies have developed under the protection of an American military power with no real equivalent: the Pax Americana (LINK).
- This protection enabled the development of an increasingly globalized economy. Companies organized their supply chains on the assumption that major trade routes would remain open, safe, and predictable. Allied countries were able to cut military spending, and financial markets gradually came to view geopolitical risks as temporary and unlikely to have a lasting impact on the economy.
- That assumption no longer holds.

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- The war in Ukraine, tensions in the Middle East, attacks in the Red Sea, and disruptions around the Strait of Hormuz show that the security of trade can no longer be taken for granted.

- With a USD 20,000 drone, Iran can destroy a USD 40 million Apache helicopter (LINK), and more importantly, it gains the ability to disrupt trade routes that are essential to the global economy.

The question, therefore, is not simply whether a ship can physically pass through a strait.

What matters to businesses is knowing when the goods will arrive, how much transport and insurance will cost, and whether the flow can continue without interruption.

This logistical uncertainty now has a name: bottlenecks, which are becoming the new economic paradigm.

BOTTLENECKS: THE NEW PARADIGM

- Before Covid, the world was organized mainly to optimize costs. Production took place wherever it was cheapest, companies held little inventory, and deliveries ran on a just-in-time basis.

- The system relied on reliable, low-cost global transport.

- Since COVID, consumers/voters want production to be local.

- These supply shocks create inflation shocks: production shifts from low-cost, often Asian, manufacturing to more local production in economies that have lost the expertise to make physical goods, having focused on services instead.

- We see it very concretely: eggs or Doliprane (paracetamol) during COVID (LINK)/ bicycles or Shimano derailleurs (LINK) / the well-known DRAM or Nvidia chip shortage, and today, oil passing through Hormuz.

- Bottlenecks are the new paradigm of a world chasing reshoring and reindustrialization

Portfolio implications

For all these reasons, we believe that since COVID, inflation has settled durably above 3%, and that the USD is on a medium- to long-term downward trend.

We continue to favour our themes linked to these constraints:
Energy: Westbeck Energy Opportunity / Discovery Certificate
Commodities and metals: IXIOS Energy Metals / IXIOS Gold / Recovery Certificate
Short duration on the fixed income side, favouring emerging markets: Arkaim / Vontobel EM Corp / Short Duration Certificate

AI: TECHNOLOGICAL REVOLUTION, FINANCIAL UNCERTAINTY

- This technological revolution plays out through two very different strategies: the one we see every day here in the West, via ChatGPT, Gemini, Claude, etc., offering paid solutions that are relatively cheap for an individual but quickly become expensive for companies (for example, UBER asking its employees to stop using AI: LINK).

- This revolution is being financed by the so-called "hyperscalers" (Meta / Broadcom / Amazon / Alphabet), which used to be extraordinary cash-flow generators and are now taking on debt like never before to fund this race.

- On the other side, Chinese companies little known in the West are offering free, open-source solutions, even as the US has limited China's ability to source hardware such as Nvidia chips (LINK)

- Yet China has managed to build local champions — the world is discovering CXMT (a serious competitor to Micron and others).

- The latest model, released just a few days ago, is making waves: it is free and open source, you can download it and run it on your own servers (i.e., keep your data), and its quality is remarkable: KIMI 3 (LINK).

- What we learned from our experience with the solar panel sector in the mid-2000s: when China decides to make a sector a strategic development priority, THEN it is important to stay away from that sector in the stock market!

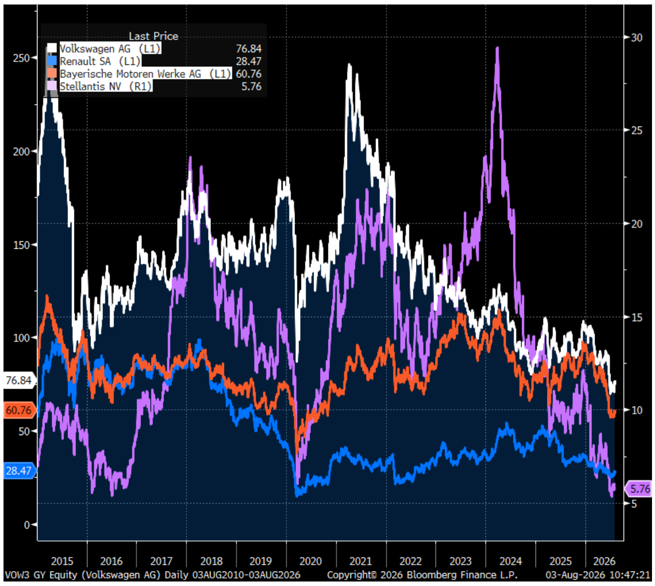
- A large majority of Western solar panel manufacturers went bankrupt, and China now produces more than 80% of the panels sold worldwide.

- More recently, we were able to put this adage to the test again with the automotive sector: in 2000, China produced barely 2 million cars a year; today, it produces more than 32 million cars of outstanding quality at unbeatable prices.

- Result: our European manufacturers are suffering from competition heavily backed by China's state-directed system, which applies a centralized strategy with a very long-term horizon (LINK).

Car production: China vs. the rest of the world since 2000

Share price performance since 2015 of VW / Renault / BMW / Stellantis



- We are applying the same analysis to AI today.

<u>Portfolio implications</u>

We remain very lightly exposed to this tech and prefer to play the AI revolution through our energy position.

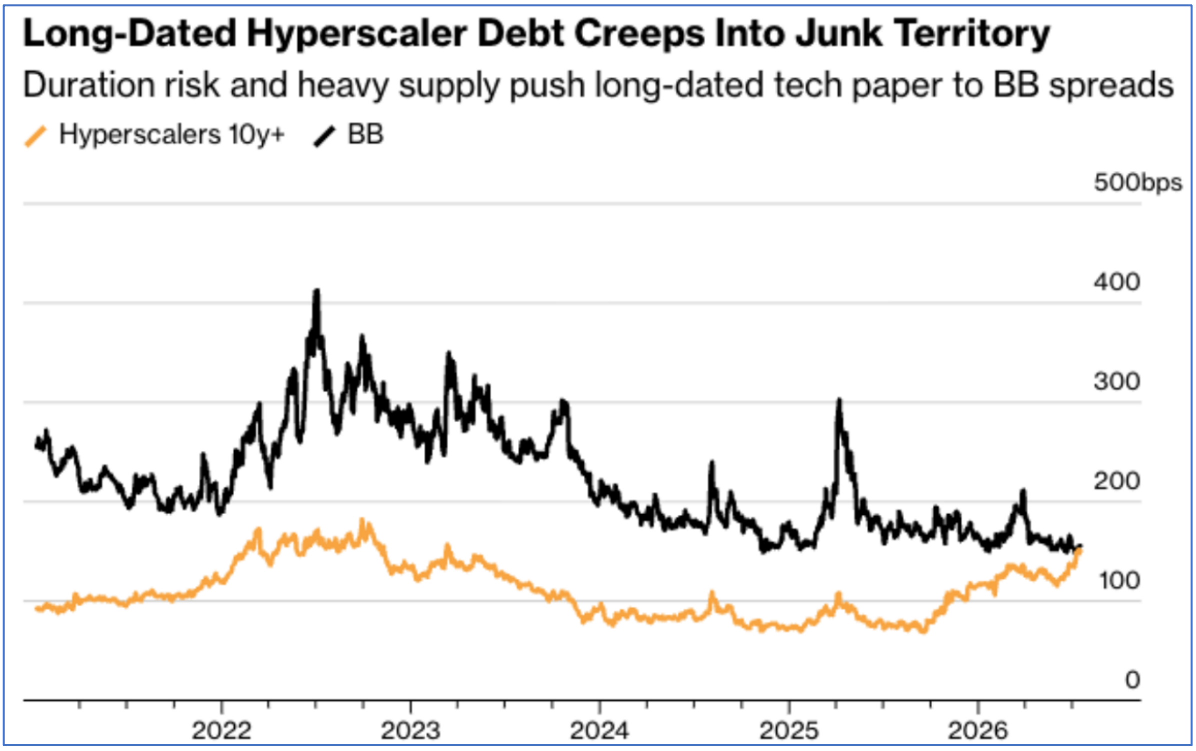
THE "CIRCULAR" ECONOMY OF AI

- This AI race will be fierce, and political actors will get increasingly involved.
- We are hearing growing criticism of this new Chinese model, KIMI 3, which was initially trained on American models to reach its current level.
- Yet the very same critics use all our accessible data (not necessarily with our consent) to sell us their own solution, while the Chinese model reportedly had to pay for a Claude subscription to train itself - the irony…
- Interesting article by Nvidia's CEO for his first Tweet / X post: LINK

- We are also learning that Nvidia is going as far as financing and building very large, very costly data centers — USD 50 billion (!!!) — only to then lease them to operators who are also its customers and who will order billions of dollars' worth of chips. (LINK)

- Where will this "circular" economy stop: essentially taking money out of your own pocket to give to your customer, to later benefit from an even bigger stock re-rating as your revenue grows…

- The credit market, for its part, tells a different story than the euphoria in equities: the credit spread these famous "hyperscalers" active in data centers must now pay is equivalent to that of riskier, BB-rated companies.



<u>Portfolio implications</u>

Given this analysis, we remain cautious on our exposure to the AI theme.

We have therefore participated only modestly in this rally, which we find hard to justify. The very sharp recent correction in the Korean index (KOSPI) reinforces our view.

We prefer European companies (ELEVA / Berenberg), Swiss companies (GAM Swiss Mid & Small), or the US value segment (Harris)

CONCLUSION

Geopolitics has moved back to the forefront over the past five years, after several decades during which it was largely ignored by markets.

The shift from a world optimized for efficiency to a world organized around security will require more inventory, more industrial capacity, more energy, and more capital.

This shift should provide lasting support for energy, commodities, strategic minerals, gold, and industrial companies with capabilities that are hard to replace.

Our conviction-based approach allows us to diversify portfolios while concentrating investments on a few core themes:

- Energy producers.
- Gold mines and strategic minerals.
- Small and mid-cap industrial companies.
- Short-duration emerging market corporate debt.

At the same time, we remain cautious on valuations. We would rather miss certain opportunities than bet on a trend without understanding its fundamentals and its real capacity to generate profits.

Finally, our allocation to liquid alternative strategies and hedge funds is particularly well suited to an environment that is more volatile, less predictable, and marked by correlations that can shift quickly.

This new world will likely be less efficient, more costly, and more volatile. But it will also offer plenty of opportunities to those who can identify the resources, capabilities, and companies that have become truly scarce.

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RJ Management Strategies / Certificates

Short Duration Certificate (USD)
Emerging market credit fixed income strategy in USD with a duration below 2 years.

2026 YTD	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	**Total**
+7.94%	+6.65%	+4.86%	+5.93%	+3.36%	+6.95%	0.72%	+5.3%	+1.37%	+2.51%	+0.71%	**+56.89%**

Grand Recovery Certificate (USD)
Equity strategy, combining our macro and geostrategic “top-down” approach with “bottom-up” sector selection.

2026 YTD	2025	2024	2023	2022	2021	2020	**Total**
+3.48%	+61.28%	-0.21%	+7.88%	+1.21%	+7.73%	+11.34%	**+118.11%**

Discovery Energy Certificate (CAD)
Equity strategy with sector exposure concentrated on small and mid-cap exploration and production energy companies in Canada and the US.

2026 YTD	2025	2024	2023	**Total**
+44.45%	+19.05%	-2.18%	-0.23%	**+67.83%**

Please feel free to contact us to discuss our macroeconomic views, our portfolio management, or our dynamic certificates.

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