Quarterly Investment View

Lotos
Asset Management

An Era of Geopolitical Power Politics: Implication for Investments?

After a convincing performance of our portfolios last year, clearly outperforming the benchmark, this year's focus shifts to a topic that is gaining increasing attention. The global investment landscape is undergoing a profound transformation as geopolitical power politics reasserts itself as a rising force shaping markets. The post–Cold War assumption that economic integration would override political rivalry has been replaced by an environment defined by strategic competition, economic coercion and national security priorities. For investors, geopolitics is no longer an external shock to be discounted, but a structural factor that increasingly determines risk, return and capital allocation across all asset classes.

At the core of this shift lies intensifying strategic competition, particularly between the United States and China. Trade tariffs, export controls, investment restrictions and industrial policy are now permanent features of the global economy. These tools are being used to secure technological leadership, protect supply chains and reduce strategic dependence. As a result, markets are fragmenting into overlapping political and economic blocs, undermining global efficiency but reinforcing domestically or politically aligned industries. Investment decisions should therefore account not only for fundamentals, but also for policy direction, regulatory exposure and geopolitical alignment.

Equities are being reshaped by this new environment. Companies operating in sectors deemed strategically important—such as defense, semiconductors, artificial intelligence, energy infrastructure and critical minerals—are increasingly supported by government spending, subsidies and protectionist policies. This has created structural tailwinds for firms aligned with national priorities, particularly in developed markets. Conversely, companies dependent on complex global supply chains or exposed to geopolitically sensitive regions face higher costs, operational disruptions and valuation discounts. Equity risk premiums are no longer uniform; they increasingly reflect political risk exposure and with the US government taking equity stakes in public companies, expanding intervention in free markets.

The following charts show the outperformance of certain sectors vs. the S&P 500 and the development of the gold price, which partly can be seen as a geopolitical risk indicator, in 2025. We believe this trend will persist through 2026, but sectors may be hit temporarily by profit taking.

Source: Bloomberg (1-year performance chart)

Source: Bloomberg (Spot gold price; 1 year performance 65.96% p.a.)

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Fixed income markets are also deeply affected. Sovereign bond spreads will be increasingly influenced by geopolitical risk, sanctions exposure and strategic relevance rather than debt metrics alone. Countries facing political isolation or external pressure will experience higher borrowing costs and capital flight, while geopolitically "safe" jurisdictions benefit from reserve currency status and safe-haven demand. At the corporate level, issuers in strategic sectors may benefit from implicit state backing, while those exposed to geopolitical chokepoints or regulatory shifts face tighter financing conditions and higher credit risk.

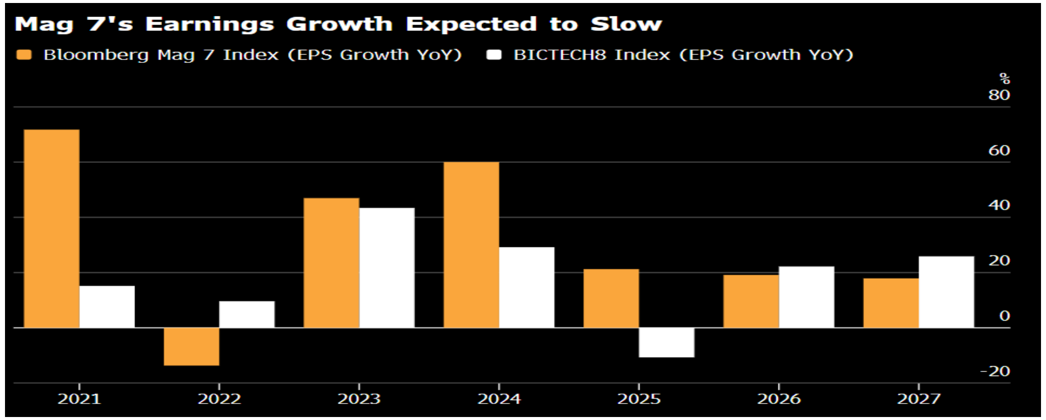
Trump's recent initiatives extend beyond the equity market. By urging Fannie Mae and Freddie Mac to purchase up to $200 billion in mortgage-backed securities, he aims to pressure the Federal Reserve into lowering interest rates. Additionally, his call for a 10% cap on one-year credit card rates is designed to most likely create a favorable economic impact ahead of the 2026 midterm elections.

The recently announced investigation by the Department of Justice against Powell undermines the independence of the central bank and erodes its credibility. Such an intervention represents a significant encroachment on free markets, heightening concerns about political influence over monetary policy and potentially undermining confidence in US financial markets and the US dollar.

All these moves showed a willingness to intercede in the operations of the private sector that is unprecedented in the modern era and would have been unthinkable among previous generations of Republican politicians.

Considering these uncertainties and given the relatively attractive valuations of Chinese technology companies, we remain underweight US equities and overweight Chinese stocks. This positioning reflects a more balanced geopolitical approach and enhances global diversification within our portfolio. Furthermore, earnings of the Chinese Big Tech 8 companies' basket is expected to overtake the US Magnificent 7 in terms of growth in 2026.

Source: Bloomberg (BICTECH8: Alibaba, Baidu, Tencent, NetEase, PDD, Xiaomi, JD, Meituan vs. BM7T: Alphabet, Amazon, Meta, Tesla, Nvidia, Microsoft, Apple (Magnificent 7))



Source: Bloomberg

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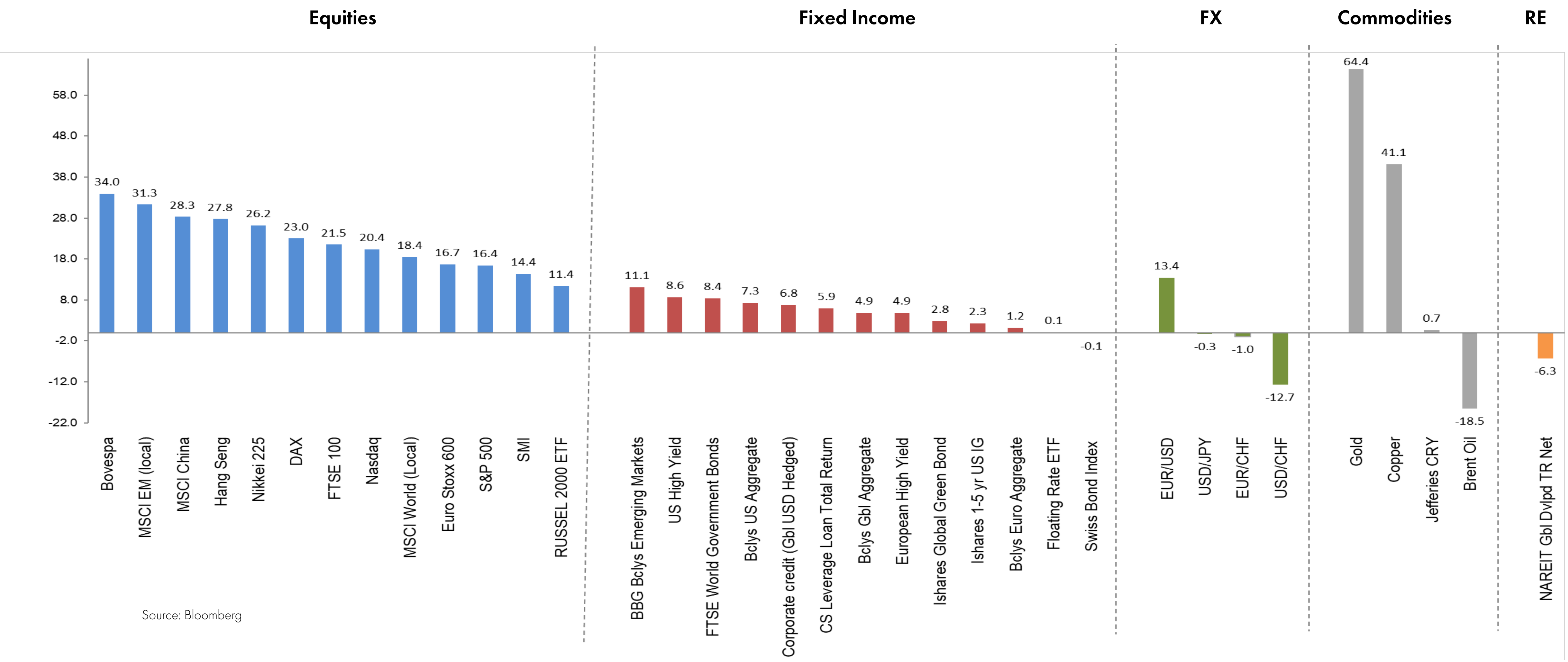
Conclusion:

- Geopolitics is becoming an important factor for investment outcomes across all asset classes. It adds a new dimension to the classical fundamental analysis.
- Strategic competition and economic fragmentation are structural, not cyclical.
- Asset pricing increasingly reflects political alignment and policy support.
- Diversification should incorporate geopolitical risk, not just asset class and geography.
- Sovereign and corporate credit risk is increasingly tied to geopolitical exposure.
- Government interventions and subsidies in free markets are more likely to occur in sectors the state defines as critical.
- Investors who integrate geopolitical insight into portfolio construction will be better positioned to protect capital and capture opportunities in an era defined by power politics.

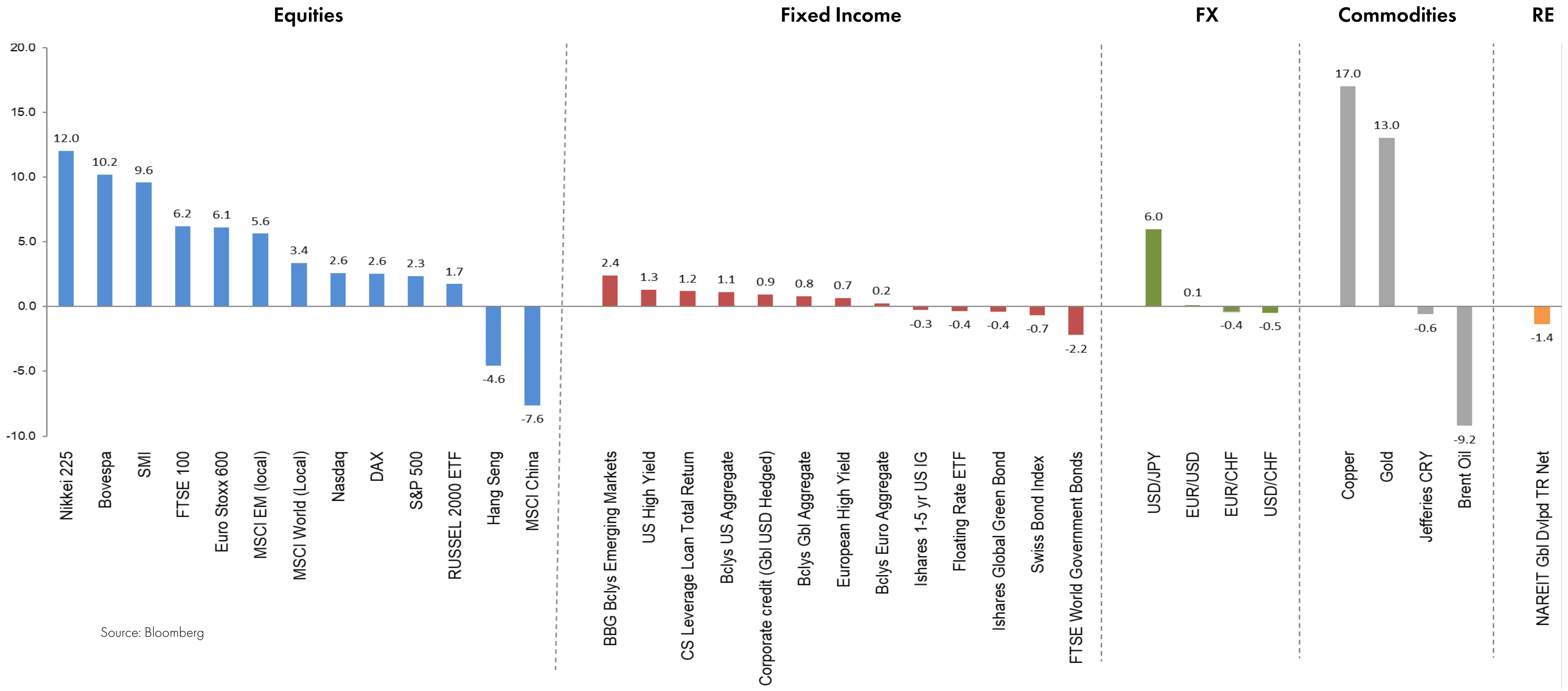
Please refer to the section "How are we invested and why" for further details.

YTD Performance of Major Asset Classes as End of Decemer 2025 (in Local Currencies)



Source: Bloomberg

Q4 2025 Performance of Major Asset Classes (in Local Currencies)



Source: Bloomberg

Performance major asset classes Q4 2025

- **Equities:** Equities once more performed solidly in Q4, supported by resilient earnings and sustained investor appetite for risky assets due to AI and trade tensions easing in the second half of the year. Emerging markets led performance, with Brazil standing out as a notable outperformer. Japanese equities also posted sizeable gains in local currency terms during the fourth quarter. European equities outperformed US markets in Q4, supported by attractive valuations and improving sentiment, although the DAX lagged behind following a strong earlier-year performance triggered by the defense sector. Swiss equities advanced meaningfully during the last quarter after an agreement was reached on the removal of excessive US tariffs, materially improving the outlook for export-oriented sectors. Declining margins at Chinese electric vehicle manufacturers in the fourth quarter weighed on performance, pushing the MSCI China Index into negative territory.

- **Fixed Income:** Inflation in both the United States and the euro area remained above 2% but continued to stabilize toward year-end. Through out the year emerging market fixed income instruments outperformed developed market peers, benefiting from attractive carry and sustained investor demand for higher-yielding assets. Riskier fixed income instruments in general outperformed their less risky peers in 2025.

- **Commodities:** Gold posted strong gains in Q4 2025, supported by a combination of persistent geopolitical risks and purchases from central banks. The Silver price surged enormously due to strong demand linked to technological applications, including AI-related infrastructure.

- **Currencies:** The Swiss franc and the Euro appreciated significantly against the US dollar over the course of 2025. The Japanese yen depreciated sharply against the dollar in Q4 due to the announcement of a massive economic stimulus package.

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