

Quarterly Investment View



The winner takes it all?

ABBA's song "The Winner Takes It All" reflects the imbalance often felt in break-ups, where one party appears to move on unscathed, seemingly triumphant, while the other is left grappling with loss and disillusionment. In a broader geopolitical context, this sentiment might apply with the current posture of the United States, which appears to sever ties with global partners unilaterally, seemingly pursuing its own interest in quite an uncivilized, chaotic and bullying way. But will the US really be the ultimate winner?

We had long assumed that operating within a serious line of business like ours demanded primarily rigorous analytical thinking and structured decision-making. However, in light of the dynamics introduced by the current U.S. administration, it has become increasingly evident that a deeper understanding of negotiation strategies and game theory is essential to navigate the prevailing uncertainty more effectively.

Although Donald Trump does not explicitly reference the formal models or terminology of academic game theory in his writings, his strategic posture—characterized by zero-sum thinking, the use of leverage and bluffing, and a consistent drive to maximize perceived advantage—bears a strong resemblance to foundational game-theoretic constructs. His approach parallels the logic of the Prisoner's Dilemma and the Chicken Game, while his emphasis on unpredictability and calculated bravado evokes the poker-inspired framework of strategic signaling and bluffing.

We now would like to present these models, the Trump version, the possible outcomes and try to find out where we currently stand.

1. The Chicken Game

Game theory model: Two players head toward each other. Whoever swerves first is the "loser," but if neither swerves, both crash.

Trump's version: Trump often positions himself as the one who won't back down, assuming the other side will blink first. He values perceived toughness and unpredictability. Quote: "My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I'm after." Trump frequently escalates tensions to test how far others will go before compromising.



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Possible outcomes: High-stakes move can result either in a big win or a hard crash.

Current situation: This model can mostly be applied to the situation with China. Both sides are in tariff acceleration mode. With China vowing it will fight to the end, it seems very unlikely that it will back down first even if it suffers economically. China already informed citizens to treat what is coming stoically and take some pain. Chinese media highlight how badly the trade war will hurt the US. Importantly, China has already reduced reliance on US agricultural products, such as soybeans. Will the US swerve or both crash?

The Chicken Game model may also apply to the Federal Reserve and its Chairman Jerome Powell. Will bond yields keep rising and the Fed refuses to cut rates? Remember, one of the most important goals of the new administration are lower longer-term interest rates. While the market initially incorporated more and more rate cuts, in the very last days, yields climbed with breathtaking speed. This might well have led Trump to announce a 90-day pause on higher tariffs. Again, it seems that Trump blinked first.

2. The Prisoner's Dilemma

Game theory model: Two players can either cooperate or betray the other. Mutual cooperation yields decent results, but betrayal can provide a better individual outcome—unless both betray, which is worst for both.

Trump's version: His skepticism toward alliances and multilateral agreements reflects a tendency to defect rather than cooperate. NATO criticism is a good example. By often portraying NATO as a “bad deal” he argues that the U.S. is being taken advantage of.

Quote: “The worst thing you can possibly do in a deal is seem desperate to make it. That makes the other guy smell blood, and then you're dead.”

Possible outcomes: In a repeated Prisoner's Dilemma, cooperation typically builds trust, but Trump often plays it as a single-round game, where maximizing short-term U.S. gain is prioritized over long-term mutual benefit.

Current Situation: The US has different objectives with China and the rest of the world. For the rest of the world to be successful they must stick together. Unfortunately, everybody would lose in the end, but the US would lose more. Why? The extortionist controls their victims by becoming less and less cooperative – yet still cooperative enough to keep the other party engaged – and by never being the first to concede.



Source: Bloomberg



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This should lead to a situation where the extortionist outperforms their opponents by demanding and receiving a larger share of what is at stake. But when the bullied resist being the first to yield, the bully loses more. But both sides will take a loss in the end.

Smaller nations, such as Switzerland, are natural targets as they have no negotiating power, are unable to run balanced trade with the US and will ultimately settle.

But also larger countries, such as South Korea, Japan, the UK and India, have numerous trade and defense relations that make an agreement more probable.

Yet China, the EU and Canada are too large or too important and have strong negotiating power. We have seen the EU already approving tariffs on around EUR 21 billion of US goods in retaliation for the 25% duties imposed by Trump on the bloc's steel and aluminum exports last month. The resistance could be more stubborn and more united than thought by the US administration. It is therefore not clear at all that the US will be successful in maximizing short-term US gains.

3. Strategic Signaling & Bluffing (Poker analogy)

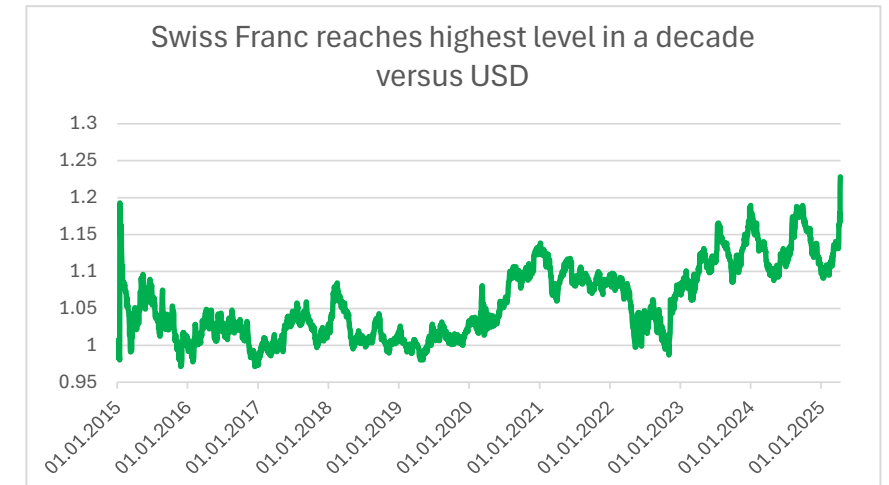
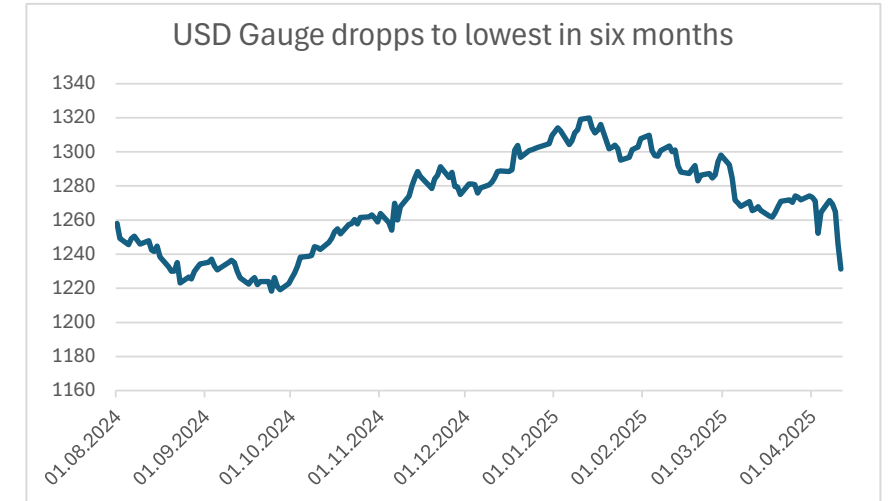
While not a formal game model, game theory often analyzes signaling and bluffing, especially in situations with incomplete information.

Trump's version: Trump uses bold claims, threats, and media spectacle to shape perceptions—making others uncertain of his true position or intent. He sometimes bluffs big—threatening lawsuits, walking away from negotiations, or demanding extreme concessions—then later softens once he gains leverage.

Quote: "Sometimes, by losing a battle you find a new way to win the war."

Possible outcome: Strategic signaling works best when others believe your threats are credible—even if you don't intend to carry them out.

Current Situation: Trump uses this strategy extensively. Yet with time, this strategy may lose credibility and will not work as expected. Markets already started an US asset exodus as investors' confidence in the US government and economy are undermined. The growing legal uncertainty continues to play a pivotal role and persists within the current environment.



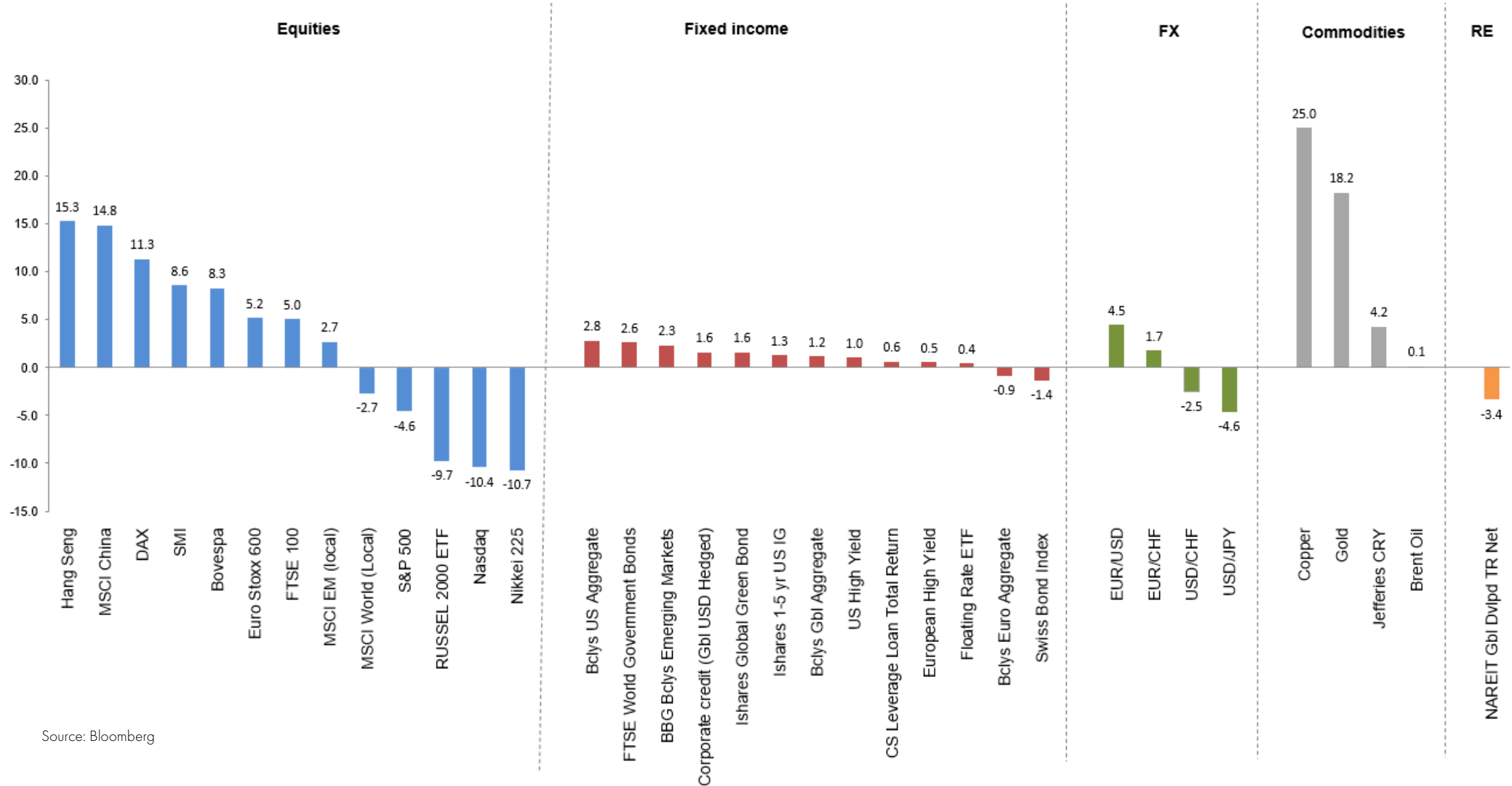
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Conclusion:

- Trump's strategic mindset aligns with certain non-cooperative game theory principles—he favors aggression over compromise, individual gain over mutual benefit, and psychological tactics over pure rationality. It is less about rules and more about power dynamics, which makes his approach volatile but sometimes effective, especially when the other Rule-based Trump players are risk-averse.
- The main adversary of the US – China - is however not expected to subdue. The mutually escalating tariffs are becoming increasingly absurd and are likely to have serious consequences for global trade and U.S. inflation.
- Also, European officials are determined to show unity and deploy their trade heft, with some seeing Trump's recent move as sign of weakness. This may not align with Trump's strategy, as he may have perceived the rule-based European Union as a discordant and insufficiently resolute opponent.
- Other regions/countries except the UK might be forced to accept unfavorable terms.
- The highly opaque decision-making approach of the U.S. administration—driven by objectives that appear to extend beyond the realm of trade—risks inflicting lasting damage on the United States, as it relies on extralegal tactics, coercion, disregard for international norms, and power-driven maneuvering.
- While the majority of countries continue to pursue negotiations with the United States, they are simultaneously seeking to deepen ties with other regions and nations, primarily through the advancement of free trade agreements.
- The United States' long-standing edge in drawing the world's brightest minds is showing signs of erosion.
- Investors already started an US asset exodus as investors' confidence in the US government, economy and legal system are undermined.
- For the time being, markets appear to represent the sole effective counterbalance.
- We strongly reduced our US assets in favor of Europe and Asia as well as Cash.

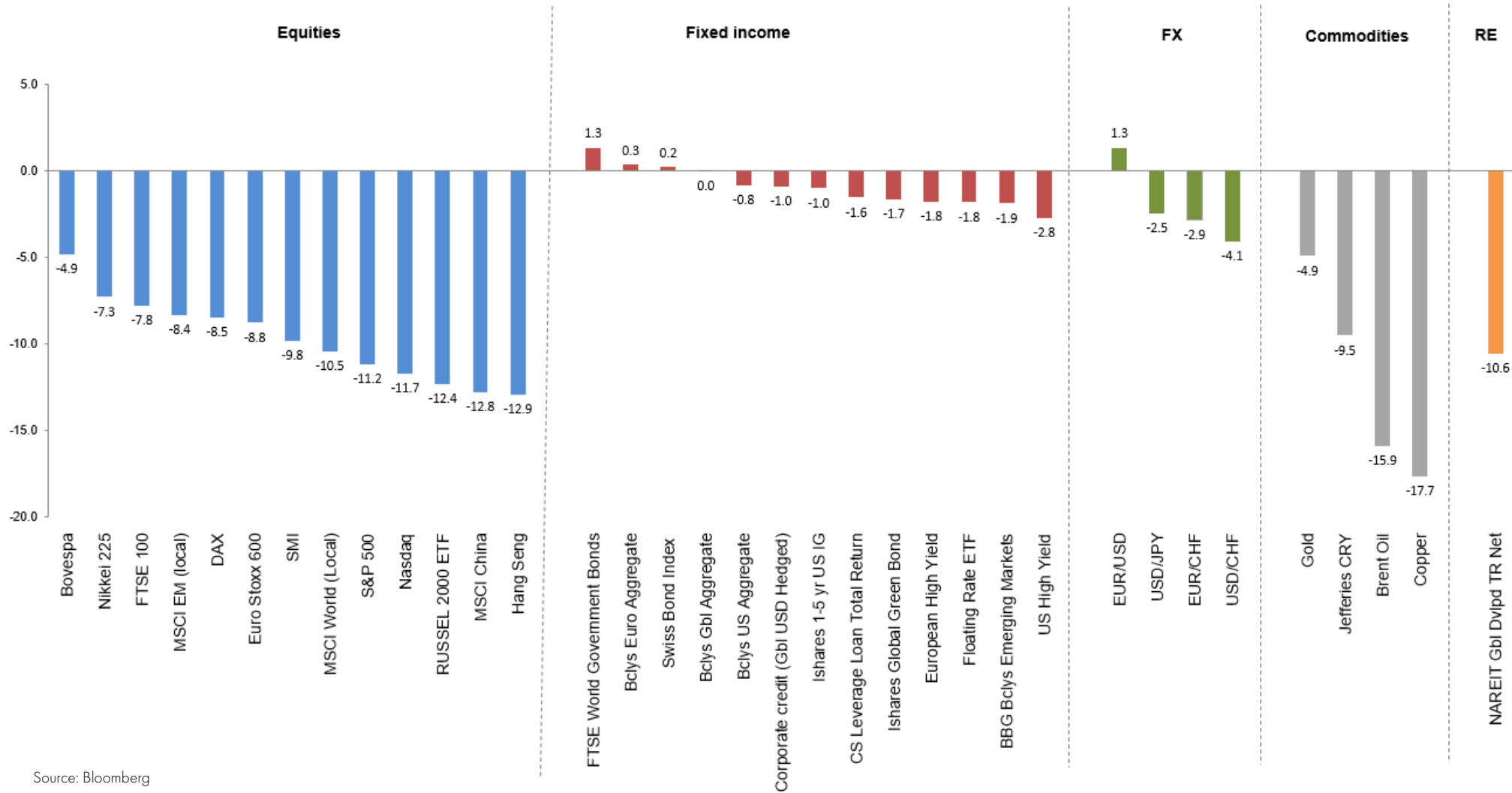
Please refer to the section "How are we invested and why" for further details.

Performance major asset classes Q1 2025 in local currencies



Source: Bloomberg

Performance major asset classes until April 8, 2025 in local currencies



Source: Bloomberg

Performance major asset classes Q1 2025

- **Equities:** The start of the year was marked by a substantial shift from the US to China and Europe. Investors were taken aback when a Chinese startup, DeepSeek, unveiled a groundbreaking open-source AI model that appeared to demonstrate the feasibility of conducting both training and inference with a significantly smaller number of Graphics Processing Units, compared to its U.S. counterparts, all at a fraction of the cost. This revelation disrupted conventional assumptions about the computational resources required for cutting-edge AI, raising questions about the future competitive landscape in the field. Also on the economic front, data showed expanding consumption, investments and industrial production that were better than expected, suggesting signs of resilience in the economy. Additionally, China offered attractive valuation. Euro-zone equities could benefit from the potentially substantial increase in fiscal spending supporting especially defense and infrastructure. The Nasdaq suffered from the technological developments in China. The Russell 2000, initially expected to thrive under the supportive economic growth initiatives of the new administration, began to manifest growing skepticism regarding the validity of this thesis.
- **Fixed Income:** Although the potential tariff policies by the Trump administration initially triggered concerns of a recession, which, coupled with expectations of further Federal Reserve rate cuts, appeared to provide support for fixed income assets, the subsequent rise in inflation expectations—coupled with the potential adverse impact on corporate earnings—ultimately resulted in a negative performance across most fixed income instruments.
- **Commodities:** Copper benefited from an improved view on the Chinese economy. Gold resumed its outperformance on sustained geopolitical risks and a wave of purchases by central banks.
- **Currencies:** The U.S. dollar dominance began to be increasingly scrutinized.

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