ALTUS
INVESTMENT

Quarterly Investor Report

First Quarter 2025

Macro Commentary

After his inauguration on 20 January, Trump's early dealings stuck to his "escalate to negotiate" playbook, appearing to act tough while maintaining a degree of care about the impact of his actions on financial markets. On 29 January, Trump threatened Canada and Mexico with 25% tariffs, which would only be withdrawn if those two countries took measures to restrict the flow of fentanyl and illegal immigrants across the US border. A few days later, after both countries agreed to take remedial action, Trump dropped those tariffs and the market rallied +3% over the following sessions. So far so good.

However, as February played out, campaign Trump re-emerged, reiterating belligerent threats about tariffs, which the market had expected him to tone down once in office. At the same time, it became clear that the Department of Governmental Efficiency (DOGE), headed by Elon Musk, was serious about making substantial cuts to government spending and waste. Taken together, these two policy initiatives resemble the beginning of a fiscal consolidation impulse designed to address America's $36tr debt, which the administration views as unsustainable. This represents a major shift in US fiscal policy. Since the pandemic, the US annual budget deficit has run at around 6%, a level normally associated with recession or war. This stimulus has produced a strong economy, strong corporate earnings, and strong stock markets that have outperformed their global peers and formed the foundation of "US exceptionalism". However, without that support, the economy would look quite different. One study, by the hedge fund firm Bishop Rock, suggests that if you assume a 3% fiscal deficit instead of 6% since the pandemic, then US growth would have been -0.7% in 2022, 0.1% in 2023, and -1.2% in 2024. In other words, the worst five-year run of economic growth in 75 years. While one should be sceptical of precise quantitative claims in counterfactuals of this sort, the general conclusion that US growth would be impaired by reduced government spending is pretty clear.

Coming into the quarter, investors were positioned for a pro-market, pro-business, Republican administration run by billionaires who would have the market's back. But, through February and March all investors heard was Trump's increasingly aggressive and disorganised threats to place tariffs on everything from Canadian electricity to cars, to Chinese electronics and European wine. To make matters worse, he and Treasury Secretary Bessent gave a series of interviews that demonstrated little concern about the stock market. Most notably, on 7 March, Bessent suggested that America's economy and markets had become hooked on government spending and needed a period of "detox".

The penny dropped for investors on 20 February when Walmart issued weak guidance that suggested consumers were cutting back in the face of uncertainty about government job cuts and tariffs. This signal was confirmed the next day when the services PMI showed a sudden stop in decision-making by businesses unwilling to commit to capex and hiring plans until long-term tariff policy was clear. Then on 25 February, the Conference Board's Consumer Confidence release showed an alarming drop-off in consumer confidence. As investors scrambled to derisk portfolios they had positioned for a continuation of US exceptionalism, a wave of selling took down US stock indices into the end of March.

Stocks continued to fall ahead of the 2 April "Liberation Day" press conference at which Trump announced the final formulation of his reciprocal tariff plan. The tariff rates he announced were far higher than the worst-case scenario and to be applied in a week, allowing no time for deals. The S&P500 dropped sharply, closing the following day down -5.0%.

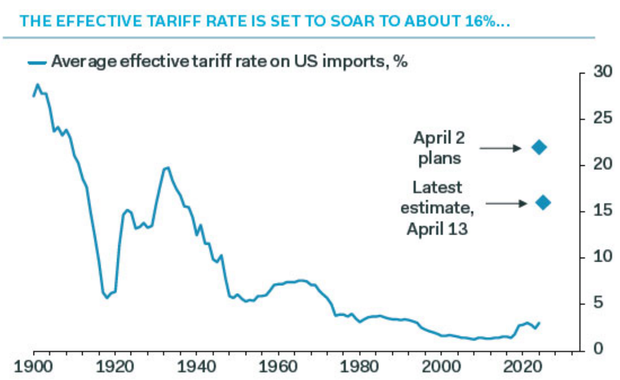
Macro Commentary (continued)

Selling accelerated again when China imposed retaliatory tariffs of 34% on Friday 4 April, causing a surge in volatility that saw the VIX hit 60 in early trade on Mon 7 April. Perhaps even more worrisome was the behaviour of US government bonds, which usually offer a reliable safe haven when stocks hit trouble. From Monday 7 April, the yield of the US 10yr note surged a massive +73bps from 3.86% to 4.59% in only five sessions. With the S&P500 down -21% from its high in February, a procession of respected finance titans, from Howard Marks to Jamie Dimon warned that if Trump applied his tariffs for any length of time it would almost certainly lead America into recession.

This combination of bond market revolt and respected establishment consternation finally brought a Trump U-turn. In a Truth Social post on Wednesday 9 April, Trump announced a 90-day pause on reciprocal tariffs for everyone except China. This was met by a remarkable +10% intraday bounce in the S&P500. A respectable annual return in just three hours and a measure of the current high volatility regime. This policy retreat, and more recent U-turns on smartphones, semiconductors, and car parts, suggests the Trump admin realises that they cannot pursue a hardline policy on trade. It also suggests we may eventually see a deal with China, on whose goods US importers are currently paying a 145% tariff. A further positive is the constructive reaction of US stock indices and a stabilisation in US bond markets.

However, Liberation Day has left some lasting damage. First, US tariffs are here to stay. Recent estimates place the average effective tariff rate on US imports at around 16%, the highest level since the 1940s (see chart below). Further concessions and deals may reduce that figure, but it could end up around 12%. Tariffs constitute a tax on consumers and businesses, which is expected to reduce aggregate demand. Some estimates put the negative effect on US real GDP around -1.0%, which increases the probability that the economy hits stall speed and tips into recession.

Second, policy uncertainty has not gone away as we have only just finished Act 1 of the tariff story. Act 2 covers the next 90 days as trade negotiations proceed with more than 50 different countries. During this period, businesses who import goods and services from overseas will continue to be unable to plan ahead and so are likely to continue to hold off on capex and hiring. Plus, there is the added uncertainty of whether America's trading partners will seek to cooperate or escalate.



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Macro Commentary (continued)

Third, tariffs risk re-awakening inflation. Although these measures impose a one-time price increase, there is a risk that they revive consumer inflation expectations, which itself can restart an inflationary feedback loop. As Federal Reserve Bank of Chicago President Austan Goolsbee put it, "*the fear with tariffs is people freak out and change their behaviour*." Multiple surveys of consumer inflation expectations show rising inflation expectations, including the University of Michigan Survey, Conference Board, and NY Fed consumer survey. This is what may keep the Federal Reserve on hold, even if the US economy weakens.

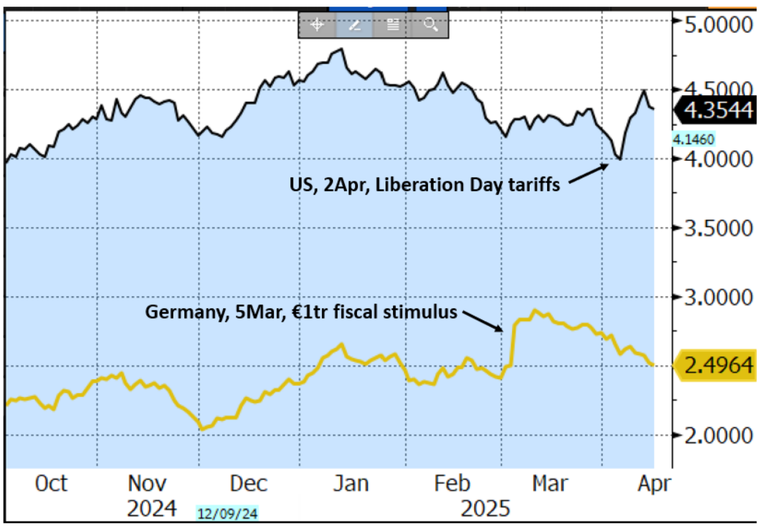
Lastly, the haphazard implementation then panicked delay of the Liberation Day tariffs has greatly reduced the confidence of global investors in the Trump administration. The tariff rates announced on Liberation Day were illogically calculated, based on trade deficits rather than tariff rates, leading many to question how carefully thought through the tariffs were. Furthermore, the list of countries included uninhabited islands (like Heard Island), which suggested the list had not been carefully compiled. And the list of offending countries included several partners with whom the US runs a trade surplus not a deficit, such as Australia, suggesting the notion of fairness had not been a consideration either. This shoddy work has damaged the credibility of the supposed adults in the room, Bessent and Lutnick, whom investors hoped would help steer Trump away from crude policymaking. It brings to mind the Truss/Kwarteng episode of 2022, which followed the same pattern of policy error, bond market revolt, then policy U-turn. Whereas the UK has a process to remove its leaders through a Parliamentary vote of no confidence, there is no comparable process in the US. So, faced with the prospect of another three years of Trump 2.0, global allocators are voting with their feet, rotating away from America until the current storm has blown through.

Asset Class Review

Fixed Income

Global bond markets were pushed around by a shifting policy landscape in Q1, most notably in the US and Germany. US yields fell through Q1 as economic data weakened and recession fears increased, a consequence of rising policy uncertainty. Moving into April, US yields sharply lifted again as markets responded to the unexpected aggressiveness of the Liberation Day tariffs, with the US 10yr yield rising a huge +70bps in just five sessions. Investors are pricing in a more inflationary environment in the US, while the move higher in yields also reflects a rotation by global investors away from US assets in favour of jurisdictions with more predictable policy. This has been reflected in flow data and the unusual combination of falling stocks, falling bonds, and falling dollar. The Fed have indicated they are unlikely to resume their rate cutting cycle until they have more clarity on the effects of tariffs, which could reawaken inflation by de-anchoring consumer inflation expectations. However, they have made it clear that in the event of serious dislocation in the bond market they are ready to step in.

In Germany, government bond yields rose during the quarter, from 2.4% to 2.7%. On 5 March, German government bonds saw historic moves higher as the incoming Chancellor, Friederich Merz, announced a new fiscal spending plan that jettisoned the decades-old debt brake and ushered in a new era of fiscal stimulus, including a €500b infrastructure plan and theoretically unlimited defence spending. The German 10yr yield jumped +30bps on that day (the biggest one day move since reunification) before easing back. The recent move lower in the yield suggests that German fixed income markets may be the beneficiary of the rotation away from the US, as well as pricing in increasing odds of a global economic slowdown.



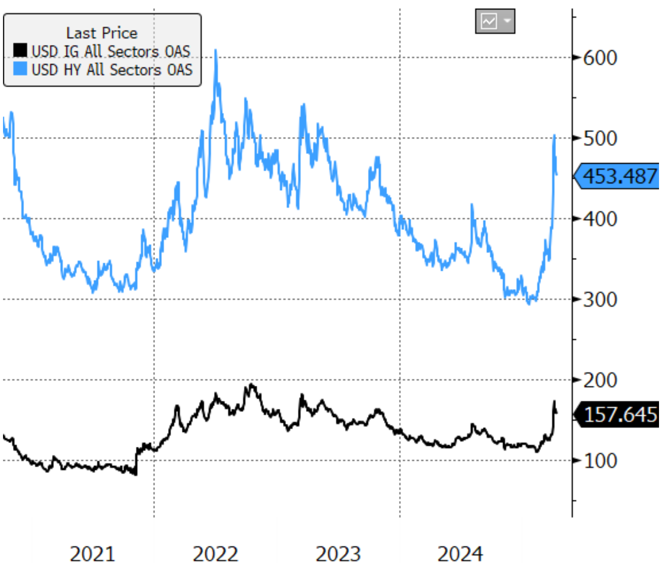
Asset Class Review

Credit

In the first quarter, credit markets reflected fears of an economic slowdown with investment grade and high yield credit spreads moving wider. This widening accelerated in the first weeks of April after the Liberation Day tariffs were announced on 2 April, with US high yield spread rising to 500bps, a level last seen during the 2022 equity bear market, before easing back to around 450bps. Tariffs hurt credit in two ways. First, they hit profit margins, which reduces the profitability and creditworthiness of issuers. Second, they act as a tax on consumers and businesses, which reduces aggregate growth, making for a less easy economic climate. The severity and duration of the current growth deterioration will depend on what tariffs remain, what are rolled back, as well as the duration of lingering policy uncertainty.

Should we see a stabilisation of tariff policy, and should the global economy escape a pronounced slowdown, then liquid credit may begin to look attractive at these wider spreads. High yield offers an attractive all-in yield, plus there is little in the way of an impending maturity wall, which is a positive. Less than 5% of US high yield matures before the end of 2026, and less than 10% of EU high yield. Additionally, issuer fundamentals are in decent shape, especially at the upper end of the high yield sector. However, should Trump's policymaking push the US and the global economy into recession, then we can expect to see further upside in credit spreads over the coming quarters as financial conditions deteriorate and defaults pick up

US investment grade and high yield credit spreads



EU investment grade and high yield credit spreads

Asset Class Review

Equities

The picture for US stocks looked good at the start of Q1 2025, with the major indices continuing to trade within their long-term bullish trend channels (as illustrated in the chart below showing the S&P500 rising steadily within the green channel lines since 2022 with only one interruption in Q3 2023). However, those primary trends broke down mid-quarter as equity investors priced in the sudden disappearance of the fundamental factors that have underpinned the bull market since October 2022. First, it became clear that the White House intends to reduce the fiscal stimulus that has boosted the US economy and corporate earnings since the pandemic. Second, the White House wants to reduce America's trade deficit through tariffs, which will hit the profit margins of companies that import goods from overseas, while also slowing the economy. And third, the inflationary influence of tariffs is currently preventing the Federal Reserve from continuing its rate cutting cycle, which would otherwise support stocks. In late February investors began to realise that the policy rug had been pulled from under their feet, and they started a rapid retreat from the stock market, causing the S&P500 to fall -10.5% by early March. Initially the green bullish channel and the 200-day moving average (the blue line below) held as support. However, the S&P500 broke decisively through that support on high volume after the 2 April Liberation Day tariffs announcement, with the index falling -24% from its February highs while the VIX spiked to a panic reading of 60.

Technical analysis works best in conjunction with fundamental analysis and both perspectives currently suggest caution is warranted. The well-respected investor Paul Tudor-Jones famously observed, "*nothing good happens below the 200dma*". Traders and investors need to keep in sync with the market and so they use a variety of technical tools to assess current conditions to guide their tactics. One such simple measure is the 200dma, which is a long-term moving average that seeks to describe the long-term trend of the market. The rule of thumb being, above the 200dma you can reasonably diagnose a bull market, but below the 200dma it could be a bear market, so be defensive. Although the market put in an impressive bounce on 9 April when President Trump announced a 90-day tariff pause suggesting a climbdown from a very hardline position, tariffs remain in place; and, with the indices below their 200dmas, US stocks are not out of the woods either technically or fundamentally.

Asset Class Review

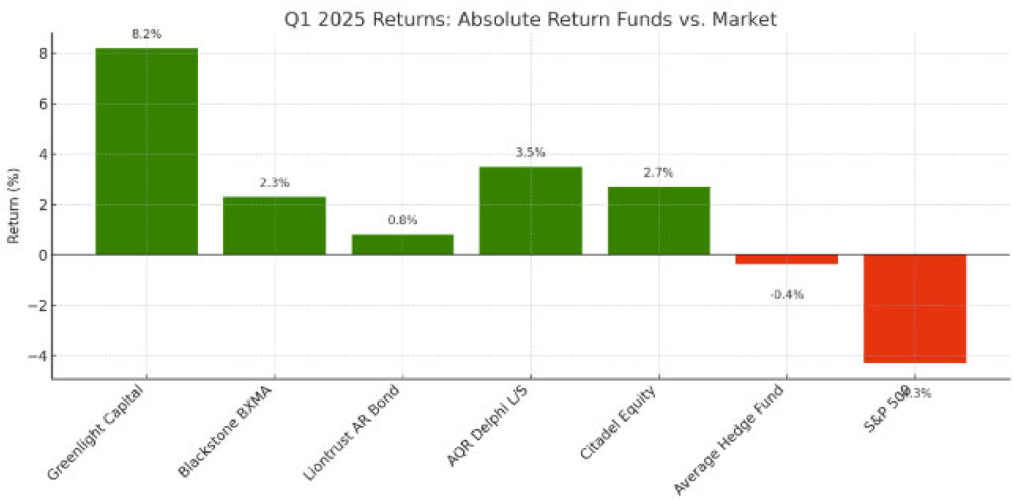
Absolute Return

In the first quarter of 2025, absolute return funds navigated a complex and turbulent market landscape with mixed, yet largely resilient results. Global financial markets were unsettled by geopolitical tensions, including the fallout from President Trump's newly imposed global tariffs and lingering inflationary concerns. Despite these headwinds, certain absolute return strategies demonstrated their strength as tools for capital preservation and risk-adjusted returns during volatile periods.

One of the standout performers was Greenlight Capital, managed by David Einhorn, which posted an impressive 8.2% gain in Q1; a stark contrast to the S&P 500's 4.3% decline over the same period. Einhorn's strategy capitalized on macroeconomic trends, particularly a 19% rally in gold prices, which bolstered returns. In addition to long gold positions, Greenlight profited from shorting consumer discretionary stocks expected to struggle under inflation and tighter consumer spending. This contrarian positioning, grounded in a cautious economic outlook, helped the fund sidestep broader equity market declines.

The broader hedge fund industry, which encompasses many absolute return strategies, saw average losses of 0.38% in Q1 2025, according to industry data. However, some strategies within this space outperformed.

While the absolute return space did not escape the challenges posed by Q1 2025's economic and geopolitical turmoil, many funds proved their worth by delivering solid, if not standout, performances. The key to success during this period was diversification across asset classes, geographies, and investment styles.

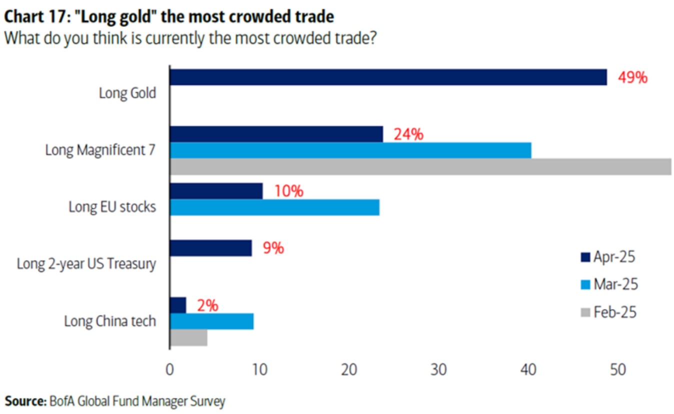


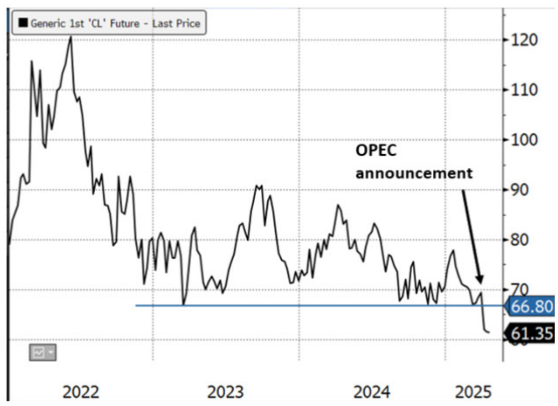
Asset Class Review

Commodities

Gold was the strongest performing major commodity during Q1, supported by safe-haven demand away from US Treasuries and a falling US dollar. Gold rose +18.2% in the quarter, and at the time of writing, it has risen approximately more than +50% from its breakout above $1,900 in early 2024. Gold stands to benefit from continuing global trade uncertainty and potential interest rate cuts in the event of a recession. However, the chart looks stretched in the short term, and it was interesting to see gold cited this week in the Bank of America Fund Manager Survey with 49% of respondents voting it as the most crowded trade, overtaking the Magnificent 7.

Elsewhere in the commodity complex, oil showed weakness in Q1, as investors dialled back global growth expectations as a result of US tariffs and the potential for a damaging trade war with China. In early April, OPEC+ surprised the market by boosting production unexpectedly, prompting WTI to fall 20% from $72 to $55. The rationale for the cut was to incentivise better production compliance from Iraq and Kazakhstan. These two OPEC members have been overproducing while around 60% of Saudi, UAE, and Russian production is shut in. The move is also likely intended to put pressure on US shale producers. If the US slips into recession at the same time as OPEC+ continue to boost output, then much lower energy prices are possible.





Asset Class Review

Private Equity

In the first quarter of 2025, the private equity (PE) market showed early signs of revival, albeit within a complex and cautious environment. After a subdued 2024, deal activity began to rebound, particularly in the U.S. and Europe. U.S. buyouts continued to dominate the global PE landscape, with the core and lower middle market segments outperforming larger funds. However, this resurgence was uneven; through February 2025, U.S. deal numbers remained below the five-year average, indicating that while optimism was returning, it hadn't yet fully materialized into a deal-making boom. In contrast, Europe experienced a more definitive uptick, with private equity deal volume up 12% year-over-year, suggesting that investor confidence was steadily returning across the Atlantic.

Despite the improved deal activity, fundraising continued to be a notable headwind. Globally, PE fundraising declined for the third consecutive year, largely due to a challenging exit environment that restricted liquidity and made capital recycling more difficult. In the U.S., this trend persisted into early 2025 — underscoring the persistence of investor caution and constrained capital inflows. The lack of robust exits not only affected fundraising but also limited the ability of fund managers to demonstrate realized returns, further hampering new commitments.

Liquidity, or the lack thereof, remained a central issue for the industry. Although exits increased modestly in 2024, they were insufficient to relieve the broader liquidity bottleneck. This challenge prompted firms to explore alternative strategies, particularly in the secondary market. The secondary PE market experienced exceptional growth, culminating in a record-breaking $162bn in closed transactions during the second half of 2024. This trend extended into 2025 as investors and managers increasingly turned to secondaries to unlock capital trapped in aging portfolios and prolong fund life.

The liquidity crunch deepened following President Donald Trump's much-anticipated "Liberation Day," during which he announced sweeping global tariffs. The move sent shockwaves through financial markets, bringing several planned IPOs and exit strategies to a standstill. Among the most notable to Altus was Klarna, the Swedish fintech giant renowned for its "buy now, pay later" services. The IPO had been highly anticipated by Altus, which viewed it as a crucial benchmark for valuing other players in the sector, such as Zilch. Klarna officially filed for its IPO on March 14, 2025, targeting a raise of around $1bn at a valuation of approximately $15bn; a sharp decline from its $46bn peak in 2021. However, the turbulent market environment, intensified by the newly imposed tariffs, forced the company to put its public debut on hold.

The ripple effects extended beyond Klarna. The broader fintech sector has seen similar pullbacks, with companies like Chime and StubHub also shelving their IPO plans. This growing list of delays underscores a broader industry shift toward caution amid mounting economic uncertainty and market volatility.

Though Klarna has yet to announce a revised timeline for its IPO, the company has suggested that it remains open to going public once conditions improve.

Overall, Q1 2025 portrayed a PE industry cautiously finding its footing. While fundraising and exits remained challenging, increased deal activity and innovative uses of the secondary market pointed to a sector that is adapting quickly to ongoing macroeconomic and financial realities.

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