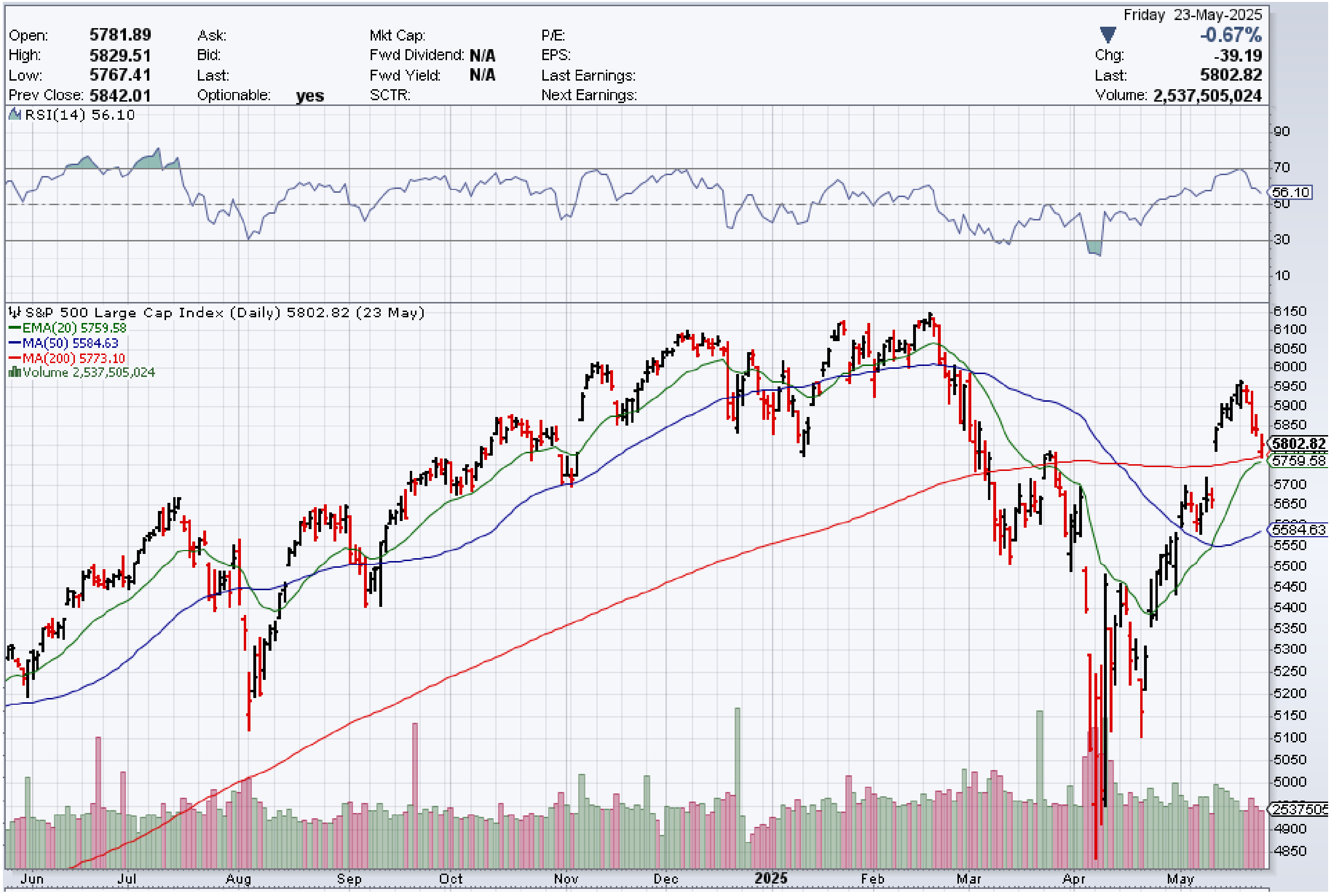
G.A.M.A.G
GERMAN ASSET MANAGERS AG

Monthly Report March 2025

In March 2025, equity markets experienced their first major correction in quite some time, with the S&P 500 declining by 6.5% from its peak of around 6,150 to levels near 5,750 by the end of the month. GAMAG Black + White weathered the downturn exceptionally well, posting only a minor loss of 0.5%. GAMAG Vola + Value performed even more resiliently, limiting losses to just 0.1%. Our hedging strategies worked almost perfectly, as intended. We stay stunned by the groundless euphoria driving long-only investors. There are good reasons why seasoned investors like Warren Buffett have significantly raised their cash positions in recent months: the current risk-reward profile is simply unattractive.

Strategy	March 2025	% against previous month	% since start of trading
G.A.M.A.G Black+White	18.724,23	- 0,52 %	+ 564,37 %
G.A.M.A.G Vola+Value	11.962,77	- 0,10 %	+ 41,73 %

The Trump-driven tariff chaos caused global markets to collapse by mid-April 2025, until a counter-rally was triggered at the command of the U.S. President. With the S&P 500 currently around 5,800 points, the sharp losses from the early days of April have been fully recovered. However, this rebound appears just as unjustified as the prior sell-off. The financial press is filled with a steady stream of poorly informed and often incompetent commentary on these



developments. The sell-off in the first half of April was seen as justified in light of the extreme tariffs—up to 25% on goods from the Eurozone and, due to China's perceived unwillingness to compromise, even 150% or more on Chinese products. Such tariff levels effectively amount to a trade ban, which hardly requires further explanation. It was therefore reasonable to assume that such measures would not remain in place for long. Accordingly, the bold tariff announcement from April 8th was suspended just a few days later—for a period of three months—which was then conveniently cited as the main reason for the subsequent recovery rally.

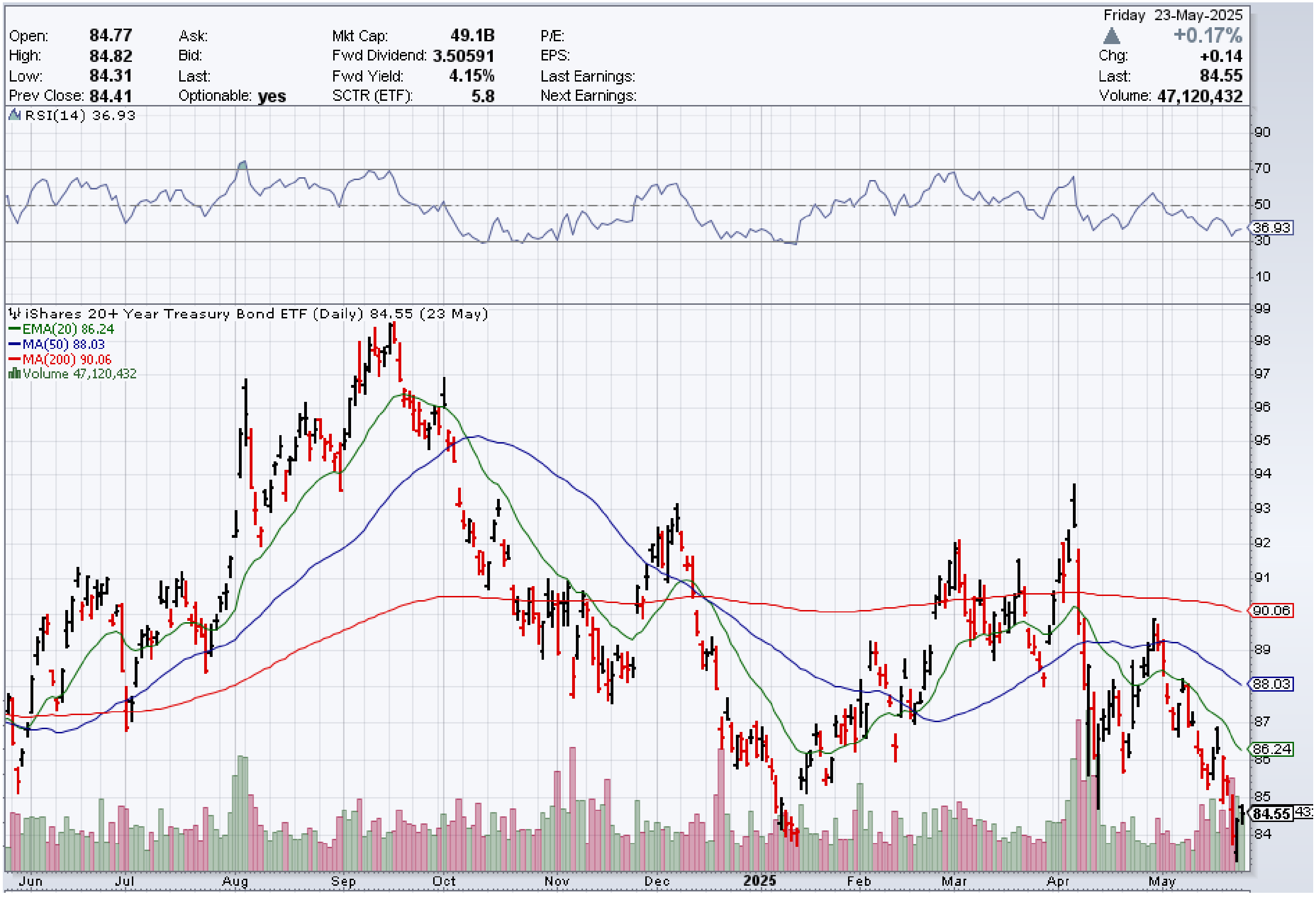
The excitable statements in the financial press—suggesting that markets could now be moved by a single tweet from the U.S. President, and that investors must react to every such outburst—reveal a fundamental misunderstanding of the true causes and objectives behind these actions. Public debate has largely focused on the idea that the U.S.

administration is attempting to repatriate production to American soil. This interpretation, however, fails to account for the underlying realities: with U.S. unemployment at just 4% and the Trump administration simultaneously engaged in large-scale deportations, one might reasonably ask—who, exactly, is supposed to staff the new assembly lines?

We have outlined the real context in [previous reports.]() It all comes down to a single issue: the $37 trillion in accumulated U.S. government debt, and the rising interest burden driven by refinancing at increasingly higher rates, now trending towards an average of 5%. At a 4% average interest rate, the annual debt servicing cost alone would be $1.48 trillion—an amount that currently lacks any real budgetary coverage. Worse, these costs compound over time: $37 trillion does not become $41.44 trillion after three years (i.e., 3 x $1.48 trillion), but rather $41.62 trillion due to the effects of compounding interest. While that may seem marginal over three years, the impact grows significantly over time—after six years, the increase in debt is no longer 24% (6 x 4%), but 26.53%, a 10% higher burden than simple interest would suggest.

And unlike in China, where the economy is still growing at around 5% annually, the U.S.—like Germany—currently faces close to 0% real growth. This declining capacity to service debt has not gone unnoticed. Last Friday, Moody's, the most influential bond rating agency still assigning the U.S. a top rating (Standard & Poor's downgraded in 2011, Fitch in 2023), felt compelled to lower its rating from AAA to AA+. The result was another sharp sell-off in long-dated U.S. Treasuries.

And that, ultimately, is what this is all about: How does the U.S. still find buyers for its debt? How can a sovereign default be prevented?



As outlined in our previous report, the core issue remain the U.S.'s massive twin deficits. Tariffs are merely a show of force. The real objective is to achieve a new "Plaza Accord"—as in the 1980s—where coordinated currency management would improve the terms of trade for U.S. businesses to the point where both the fiscal and current account deficits can be brought to zero. The straightforward idea behind this is a USD exchange rate of 1.30 to the euro and 5 to the yuan, which would massively reduce demand and thus the deficits.

The challenge, however, is that both China and the European Union—currently large exporters to the U.S.—would need to find alternative buyers for their goods, and such demand simply does not exist. This means the U.S. can only resolve its imbalances by triggering a deep recession in Europe and China, a scenario neither region has any interest in supporting. Yet, as the chart of long-dated U.S. Treasuries shows: time is running out.

EU countries (notably Germany, via artificial demand created through its €1 trillion debt package—tanks and bridges instead of cars for the U.S.) and China (via aggressive credit expansion) are attempting to counter this shift. Still, replacing roughly $1.5 trillion in U.S. demand in the short term is a near-impossible task. As a result, the current stock market rebound stands on fragile ground.

The S&P 500 is currently trading at a P/E ratio of 26—unjustifiably high given that the risk-free equivalent for 30-year U.S. Treasuries now implies a P/E of 20 (yield of 5.03%) and 22 for the 10-year note (yield of 4.54%). Factoring in operational risks, such as the recent supply chain issues that forced Ford to significantly reduce production due to unavailability or soaring costs of imported components, the outlook becomes even more precarious. Current port activity—both in San Francisco and Shanghai—shows visibly reduced terminal usage compared to a year ago.

This suggests that even the expected restocking—still possible under temporarily eased tariffs—has largely not materialized. Instead, uncertainty appears so high that many companies are refraining from ordering altogether. For now, only the earliest buyers are noticing that their shipments can no longer be processed. Inventories still exist. Supply chain disruptions have not yet triggered widespread corporate failures. But history teaches us that it's often the weakest link that breaks the system—and sometimes with far greater consequences than anticipated. The Lehman and AIG crises of 2008–2009 serve as reminders.

Against this backdrop, we see no reason to deviate from our core strategies. Where exposure to companies is warranted, we currently prefer secondary bonds (high-yield corporate debt), preferred shares, and equity exposure structured with options protection—rather than outright long stock positions based on hope alone. The current rally is liquidity-driven: abundant capital, lacking immediate productive use in the real economy, is flowing into equities. Should there be any disruption to this liquidity, a market collapse is almost inevitable.

We remain well-hedged and have implemented suitable protective strategies. In this demanding environment, we continue to see attractive opportunities for returns—but not through conventional long-only equity investing.

Carsten Straush 23.5.2025