G.A.M.A.G Monthly Report May 2026

GERMAN ASSET MANAGERS AG

Stock Markets Refuse to Face Reality

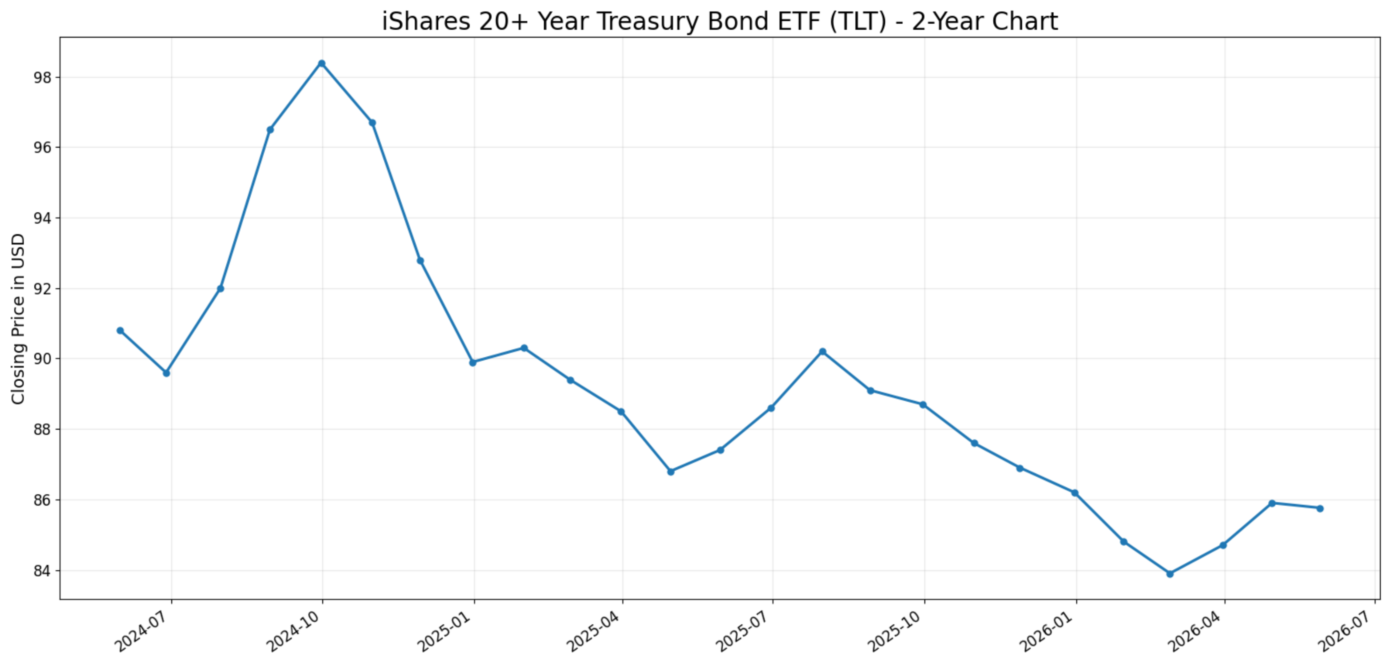
The divergence between bond and equity markets is becoming ever wider. Long-term US interest rates are once again around 4.7%, while equity markets behave as though rising financing costs, chronic fiscal deficits and only modest growth in Western economies could be ignored indefinitely. This is not a new normal, but an escalating valuation contradiction.

G.A.M.A.G Vola+Value held steady in May, while G.A.M.A.G Black+White posted a modest loss

Strategy	May 2026	% against previous month	% since start of trading
G.A.M.A.G Black+White	19,432.16	- 0.81%	+ 589.46%
G.A.M.A.G Vola+Value	11,914.01	- 0.04%	+ 41.80%

The Bond Market Is Sounding the Alarm

The price of TLT, the large exchange-traded fund investing in US Treasuries with maturities of more than 20 years, illustrates over the past two years how sensitively the market is reacting to persistently high interest rates. Rising long-term yields depress the prices of bonds already in circulation. That is exactly what TLT shows: brief recoveries do not alter the fact that the broader trend remains under strain from higher financing costs and growing public debt.



When a Sovereign-Bond Auction Is Barely Covered

The warning signal is now even clearer in Germany's primary market. In the new issue of the ten-year German federal bond on 8 July 2026, the Finance Agency offered an issue volume of EUR 6 billion. Yet bids totalled only EUR 4.022 billion. Actual allotments amounted to EUR 3.902 billion; EUR 2.098 billion - more than one third of the planned issue - had to be retained by the Federal Government in its “market-management portfolio”. Germany is now lending money to itself! The officially reported bid-to-cover ratio was only 1.0. More revealing still was the bid-to-offer ratio of just 0.7: bids from the open market did not even cover the announced issue volume. Around EUR 2 billion therefore had to be absorbed into “market management”. The days when investors scrambled to obtain allocations are a long way behind us.

Technically, a bid-to-cover ratio of 1.0 does not necessarily mean that every individual bidder received a full allocation, because the price bid also determines allotment. Economically, however, the picture is unambiguous: almost the entire bid volume had to be allocated; there was no longer any meaningful reserve of unsuccessful demand. Put simply: it only just sufficed - and relative to the volume originally offered, not even that. If even a few more buyers disappear at one of the next auctions, the state will have to retain an even larger share, accept materially higher yields or resort to other forms of official market support. With debt already high and interest costs rising rapidly, this is precisely the mechanism by which an auction-placement problem can become a refinancing crisis and, ultimately, a sovereign debt crisis.

At the 20-year US Treasury auction on 20 May, the outcome was better on this occasion, with a bid-to-cover ratio of 2.55 - but only because yields had risen sharply and the dollar had fallen, reducing the exchange-rate loss risk for foreign investors. This does not weaken the warning; it demonstrates that demand problems in sovereign bond markets are not confined to one country or one maturity segment. The financial press is also reporting the growing dependence of the US Treasury market on price-sensitive and, in some cases, leveraged buyers. As long as these buyers continue bidding, auctions appear stable on the surface. If they withdraw during a period of stress, conditions can change very quickly.

Sources and context (as at 21 July 2026): German Finance Agency - auction result dated 8 July 2026; Deutsche Bundesbank - auction result for the new ten-year German federal bond; Econostream, 8 July 2026 - bids of only EUR 4.022 billion and allotments of EUR 3.902 billion; The Wall Street Journal, 15 July 2026 - report of weak demand for shorter-dated German government bonds; The Wall Street Journal - How Sky-High Deficits Threaten the Bond Market; Reuters/US Treasury data on the 20-year US Treasury auction of 20 May 2026

AI Is an Excellent Tool - but Not Automatically an Excellent Investment

Equity markets are currently responding to rising interest rates with ever greater faith in artificial intelligence. Yet this faith conflates two entirely different questions. First, whether AI is extraordinarily useful economically and socially. In our view, the answer is unequivocally yes. GAMAG also now uses AI extensively. Second, whether the providers of models, chips, data centres and cloud infrastructure will, at today's valuations, be able to generate an adequate and lasting return for their shareholders. There is no automatic connection.

Particularly with foundational infrastructure technologies, much of the economic benefit is often captured by users, while a substantial proportion of providers suffer from heavy capital expenditure, intense competition and falling prices. The internet revolutionised the global economy. Nevertheless, many telecommunications companies that built the backbone and still operate it today have delivered disappointing shareholder returns over long periods. More than a quarter of a century later, Deutsche Telekom still trades well below the euphoric prices seen around the turn of the millennium. Technological success and shareholder returns are not the same thing.

The Billions and Trillions Being Promised Still Have to Be Earned

Particular caution is required with the investment figures cited for AI. Capital already spent, multi-year investment plans, anticipated infrastructure costs and very long-term market forecasts are often added together. This produces widely circulated figures in the tens of trillions. But these are not profits already earned and, in many cases, not even binding investment commitments. The larger the required capital base, the greater the future free cash flows must be to justify today's valuations.

The economics remain unforgiving: data centres require enormous amounts of capital and energy; chips become obsolete quickly; models become more interchangeable; open-source offerings and price competition put margins under pressure. A technology can be revolutionary and simultaneously unprofitable for a large proportion of its capital providers. Current share prices barely reflect this risk.

Postscript: The Speculative Technology Bubble Is Already Losing Air

Developments after month-end confirm the warning. SpaceX shares, floated in June, initially rose above USD 220 before falling back to around USD 120. A decline of roughly 45% from the post-IPO high shows how quickly euphoria can turn into revaluation. This example falls outside the May reporting period, but it is a revealing postscript to the valuation problem already visible in May.

Societal Risks without a Risk Premium

Financial imbalances are being compounded by growing political and social tensions. Violence, polarisation and distrust of state institutions are increasing in numerous European countries. Whatever one's political assessment, this is economically relevant: uncertainty weighs on investment, increases security and regulatory costs, and reduces planning certainty. A rational capital market should demand higher risk premia in compensation. In the most expensive equity segments, precisely the opposite is happening.

We do not know which event will trigger the revaluation or when it will occur. We do know, however, that a system of rising interest burdens, permanent new borrowing and ever-higher valuation multiples cannot be extended indefinitely. We are therefore preparing for a hard, possibly very hard, autumn.

Our Response: Returns Instead of Hope, Hedging Instead of Forecasting

GAMAG is maintaining a strictly fact-based strategy package. We diversify broadly across companies and structures whose returns are generated by real cash flows: sustainable corporate holdings, pipeline operators, infrastructure investments and other alternative forms of finance. The higher interest-rate environment continues to offer largely secured investments with attractive returns, in some cases reaching double digits. What matters is not a spectacular narrative, but the relationship between return, substance and risk.

Options serve two purposes. Purchased options protect the portfolio against extreme market movements; given still relatively low implied hedging costs, protection against catastrophic events can in some cases be obtained cheaply. The controlled sale of options generates additional premium income and allows selected assets to be acquired at predefined, materially lower entry prices. This combination is not an attempt to predict the exact timing of a crash. It is designed to ensure that we remain able to act even when the markets abruptly correct their current irrationality.

Conclusion

The bond market is already demanding higher compensation for real risks. The equity market ignores the same risks and instead assumes almost unlimited AI profits. Both cannot remain true indefinitely. We prefer real cash flows, broad diversification, attractive entry prices and consistent hedging. Wealth is not protected by believing a story, but by ensuring that the strategy continues to work when the story ends.

Carsten Straush 11 July 2026