ERLEN

Erlen Newsflash

Navigating the storm

CONTENTS

U.S. trade restrictions spark market drop 2
How far could this fall? 2
What's the smart move? 2

© Erlen Capital Management AG

U.S. TRADE RESTRICTIONS SPARK MARKET DROP

This week, markets took a sharp turn downward, triggered by Wednesday's U.S. announcement of aggressive trade restrictions targeting the EU and China. The reaction was swift and severe: stock markets tanked, yields dipped, and even gold—typically a safe haven—slipped, caught in the speculative crossfire. This wasn't just a ripple; it was a shockwave, exposing vulnerabilities that had been simmering beneath the surface.

For months, we've been skeptical of overheated market narratives, particularly the U.S.-centric growth story and the momentum behind so-called "Trump trades." Our approach has reflected that caution: emphasizing profit-taking over chasing upside, and deliberately avoiding a fully invested stance in equities. That positioning has proven prescient, allowing us to enter this decline with resilience and a clear head. Now, as volatility tightens its grip, two questions demand our focus: How far could this fall? And what should we do next?

HOW FAR COULD THIS FALL?

Our 2025 base case never banked on a recession—just a gradual U.S. slowdown offset by stable global growth. The risk we consistently flagged was valuations stretched beyond fundamentals, leaving markets ripe for a correction. Wednesday's trade bombshell shifted the landscape dramatically. J.P. Morgan now estimates a 60% chance of a global recession within 12 months, up sharply from 20%. The real threat lies in escalation: when the EU and China retaliate with their own trade barriers, we could see supply chains grind to a halt, corporate investment stall, and a broader financial crisis take root. Even a tempered response from global partners would likely weigh on markets for an extended period, eroding confidence step by step.

A de-escalation scenario—perhaps through negotiations yielding symbolic concessions from the EU and China, matched by a U.S. pullback—could steady the ship. But history suggests that kind of resolution rarely arrives without significant market pain first. Central banks face their own constraints: in the U.S., trade-driven cost pressures could push inflation past 5%, tying the Fed's hands, while the ECB might have more room to maneuver but will likely proceed with caution to avoid destabilizing an already fragile Eurozone. The takeaway is clear: conditions are poised to worsen before any meaningful recovery takes hold.

WHAT'S THE SMART MOVE?

This isn't a fleeting dip to buy into, like we saw in July 2024. It's a structural repricing driven by trade tensions, macroeconomic uncertainty, and a reassessment of risk. For those overexposed, now is the moment to lock in gains and reduce vulnerability—waiting for a rebound could prove costly if the downturn deepens. Our cash reserves, built through disciplined profit-taking over recent months, position us to act decisively when valuations reset to more rational levels. That flexibility is a cornerstone of our strategy, and it's serving us well now.

Gold remains a critical holding and we're glad to have maintained exposure there as a ballast against uncertainty. Looking ahead, we're also keeping an eye on other defensive assets and opportunities that may emerge as this shakeout unfolds. Patience and discipline will be key; trying to time the absolute bottom is a gamble not worth taking in this environment.

© Erlen Capital Management AG

Volatility like this can test even the steadiest hands, but it also creates openings for those prepared to navigate it. We're here to guide you through this storm with clarity and purpose—whether you have questions, want to explore specific adjustments, or simply need a sounding board. Let's connect if you'd like to discuss further.

© Erlen Capital Management AG

Unsubscribe: You can unsubscribe from this publication at any time. Please send us an e-mail.

Investment suitability: This publication is intended for general distribution. It is not part of any offer or recommendation and does not take into account your knowledge, experience and personal situation which is required for personal investment advice.

Legal information
This publication is deemed to be marketing material within the meaning of Article 68 of the Swiss Financial Services Act and is provided for informational purposes only. We will be happy to provide you with additional information about the specified financial products, such as the prospectus or the basic information sheet, free of charge, at any time.

This publication was prepared by Erlen Capital Management AG, Kirchgasse 24, CH-8001 Zurich, telephone +41 44 267 99 47 (www.erlencapital.com).

This document is not sent to natural persons or legal entities or handed out at their place of residence if they are a citizen or resident of or are located in a jurisdiction where the distribution, publication, provision or use of this information would violate applicable laws or regulations or where Erlen Capital Management AG does not meet applicable registration or licensing requirements. In particular, this brochure must not be distributed or passed on to US persons or within the United States. This document is intended for information purposes only. It is not the product of financial analysis or a market investigation. It is thus not subject to the Directives on the Independence of Financial Research issued by the Swiss Bankers Association, as well as the requirements of the EU Market Abuse Regulation. This document does not constitute an offer, invitation or recommendation to use any service, buy or sell any investment or perform any other transaction. The information and views contained herein are pro-vided for information purposes only and do not take into account individual investment targets, financial situations or needs. The forecasts, assessments, prices, etc. in this document are merely indicative, are specific to a particular date, are based on information sources normally used in the banking industry and reflect the author's own non-binding opinion at the time of writing. They may change without notice or obligation for Erlen Capital Management AG. Moreover, services and products may vary in composition or construction and/or be subject to sales restrictions depending on the investor and/or due to legal restrictions. Before making an investment decision, investors should therefore seek independent advice, taking into account their individual circumstances. We therefore recommend consulting your financial and/or tax advisor about potential tax implications or other consequences before investing in any of the products mentioned in this document. Potential investors should note that past performance is not necessarily indicative of future results. Investments denominated in foreign currencies are subject to exchange rate fluctuations. Certain investment products may not sell immediately in a period of market illiquidity. This can make it difficult to quantify the value of your investment and the risk that you bear. Erlen Capital Management AG therefore disclaims any and all liability for any particular asset performance, particularly any loss suffered or the attainment of a particular yield by the investments that the investor makes on the basis of this publication. Although Erlen Capital Management AG is of the opinion that the information contained herein is based on reliable sources, Erlen Capital Management AG cannot guarantee the quality, accuracy, timeliness or completeness of the information contained in this document. Erlen Capital Management AG may, to the extent permitted by applicable laws and/or prudential rules, participate in financial transactions with the issuer(s) of the securities mentioned in this document; invest in their securities; perform services for, solicit business from or conduct transactions with said issuer(s); hold positions in, options on or investments related to their securities; and/or have other material interests relating to their securities. Erlen Capital Management AG may, to the extent permitted by applicable laws and/or prudential rules, use and act on the information or investment suggestions contained in this document before they are shared with clients.

Details on how we handle your data can be found in our current data protection policy (www.erlencapital.com/privacy-policy). If you would like to receive a hard copy of our Privacy Policy, please contact us at the following e-mail address: info@erlencapital.com.

Erlen Capital Management AG
T +41 44 267 99 47
info@erlencapital.com

www.erlencapital.com

© Erlen Capital Management AG