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S E R
M O N T

Q3 2025 Report

Oct 8th, 2025

Q3 proved to be just as eventful as Q2, offering no shortage of market-moving developments.

Over the past quarter, we have engaged in discussions with our clients covering a broad spectrum of topics - from geopolitical tensions and policy uncertainty to the long-term outlook for inflation. Many conversations have reflected growing concerns over the weakening of major fiat currencies - particularly the US dollar - driven by mounting government deficits. Questions around the Federal Reserve's (Fed) independence have also surfaced, alongside a strong interest in strategies to preserve wealth and diversify away from US dollar exposure.

For these reasons, we've structured this report in two parts:

We begin with a brief review of market developments in Q3, followed by a deeper analysis of fiscal dominance in the U.S. and why we believe the U.S. dollar is likely to remain under pressure for the foreseeable future.

Market review:

July

In July, global markets remained caught between escalating geopolitical tensions and a solid underlying economic backdrop. Concerns over a potential intensification of trade disputes involving the US, China, Japan, and the EU initially weighed on sentiment. However, surprising diplomatic progress - most notably the trade agreements between the US and both Japan and the EU - led to a temporary easing of tensions.

Toward the end of the month, however, market momentum slowed. Elevated equity valuations, waning strength among mega-cap stocks, and a lack of further monetary policy support prompted profit-taking. The US Federal Reserve maintained its benchmark rate at 4.5%, continuing the pause initiated at the beginning of the year. Similarly, the European Central Bank held rates steady after four earlier cuts, citing stable economic conditions within the eurozone.

Credit spreads in both USD and EUR narrowed significantly in July, across investment grade (IG) and high yield (HY) segments. Meanwhile, the US Treasury yield curve shifted higher across all maturities, with an average increase of roughly 14 basis points.

August

Market sentiment in August was mixed, shaped by ongoing trade concerns, macroeconomic data, and central bank policy. Early in the month, investor risk appetite declined amid renewed tariff threats from the US, weak economic indicators, and growing fears of stagflation. Chinese tech-sector ADRs and crypto-related stocks came under particular pressure.

By the second week, however, risk appetite returned. Even elevated inflation data failed to dent expectations of an upcoming Fed rate cut. The broad-based market recovery particularly benefited

Japanese equities, which reached new all-time highs - driven by optimism around the trade deal with the US and strong corporate earnings outlooks.

Ahead of Fed Chair Jerome Powell's speech at Jackson Hole, profit-taking emerged during the third week of August, leading to a noticeable pullback in growth stocks. Following Powell's address, markets staged a sharp recovery, buoyed by dovish remarks that raised investor hopes for a rate cut as early as September.

September

Defying historical trends, September did not emerge as the weakest month of the year. Instead, equity markets surprised to the upside, delivering strong gains across regions. Major indices in the US, Europe, Asia, and Japan reached new record highs!

Three key themes drove markets significantly higher in recent weeks:

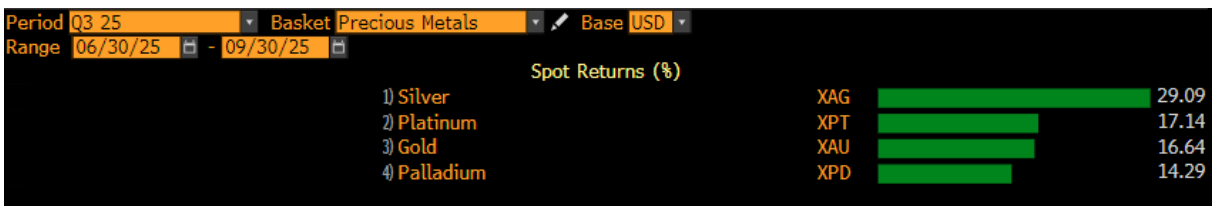
1. The Fed's rate cut—alongside guidance suggesting two more cuts may follow by year-end. However, for the first time Fed Chair Powell highlighted a dilemma – policymakers must weigh rising risks to jobs against the threat of resurgent inflation. He warned that there are **no risk-free paths now**.
2. Donald Trump's recent decision to remove Fed Governor Lisa Cook - shortly after appointing Stephen Miran to the Board - has raised fresh **concerns about the future independence of the U.S. Federal Reserve**. If a future Trump administration were to gain greater control over the central bank, it could lead to a prolonged period of lower interest rates and a weaker U.S. dollar. This potential shift reflects both Miran's stated policy views and the preferences President Trump has openly expressed.
3. Ongoing investor **enthusiasm for artificial intelligence**, which continued to boost the technology and software sectors.

The broader Equity market enjoyed a remarkable solid performance in Q3 with the exception being the German DAX Index as illustrated in below chart:



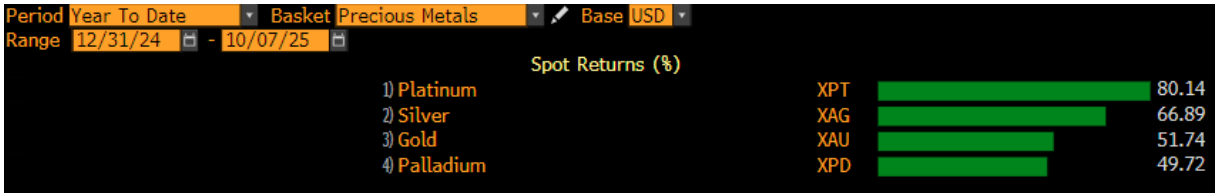
Source: Bloomberg

The Fed's rate cut in September, the prospect of further cuts, and the concern about the integrity of the Fed has propelled gold to multiple all-time highs in Q3. With gold, the entire precious metal basket benefited from a weaker US dollar in Q3.



Source: Bloomberg

Year to date, Gold has broken a long-standing record. The metal is up 51.7% which is the best performance since 1979 when Paul Volcker took over as the Chairman of the Federal Reserve.

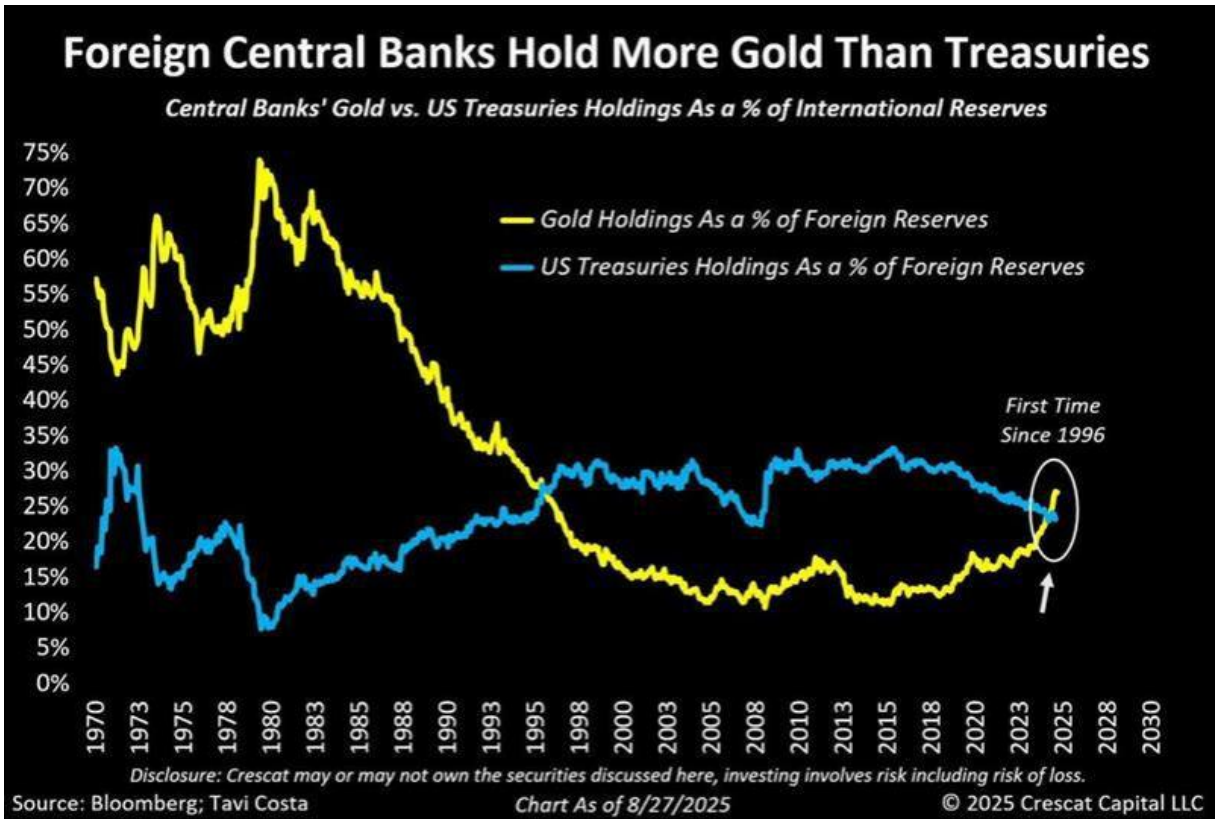


Source: Bloomberg

Recent developments continue to support the long-term case for gold. Geopolitical tensions, a shifting global order, and declining trust in the U.S. - including the dollar and Treasuries - have driven central banks, especially in countries like China, to reduce their Treasury holdings and increase gold reserves, particularly since the freezing of Russian assets in 2022.

Rising debt levels in developed economies, combined with higher interest rates, are also raising **concerns about fiscal stability**. In this environment, gold stands out as a tangible asset with no counterparty risk.

As a result, a historic shift has occurred: for the first time since 1996, central banks now hold more physical gold than U.S. Treasuries in their reserves.



Further, on August 7th US president Trump signed an executive order allowing Alternative Investments such as Gold, Cryptocurrencies, and Private Equity in 401k. The latter is the American's retirement plan which is governed by the Employee Retirement Income Security Act of 1974 – a law called ERISA. Under that regulation employers are required to offer retirement options that are in the best interest of their employees. The broader market of defined contribution plans such as 401k plus related employer plans is about \$ 12 trillion in size!! Very interesting timing indeed. More details can be found under this weblink:

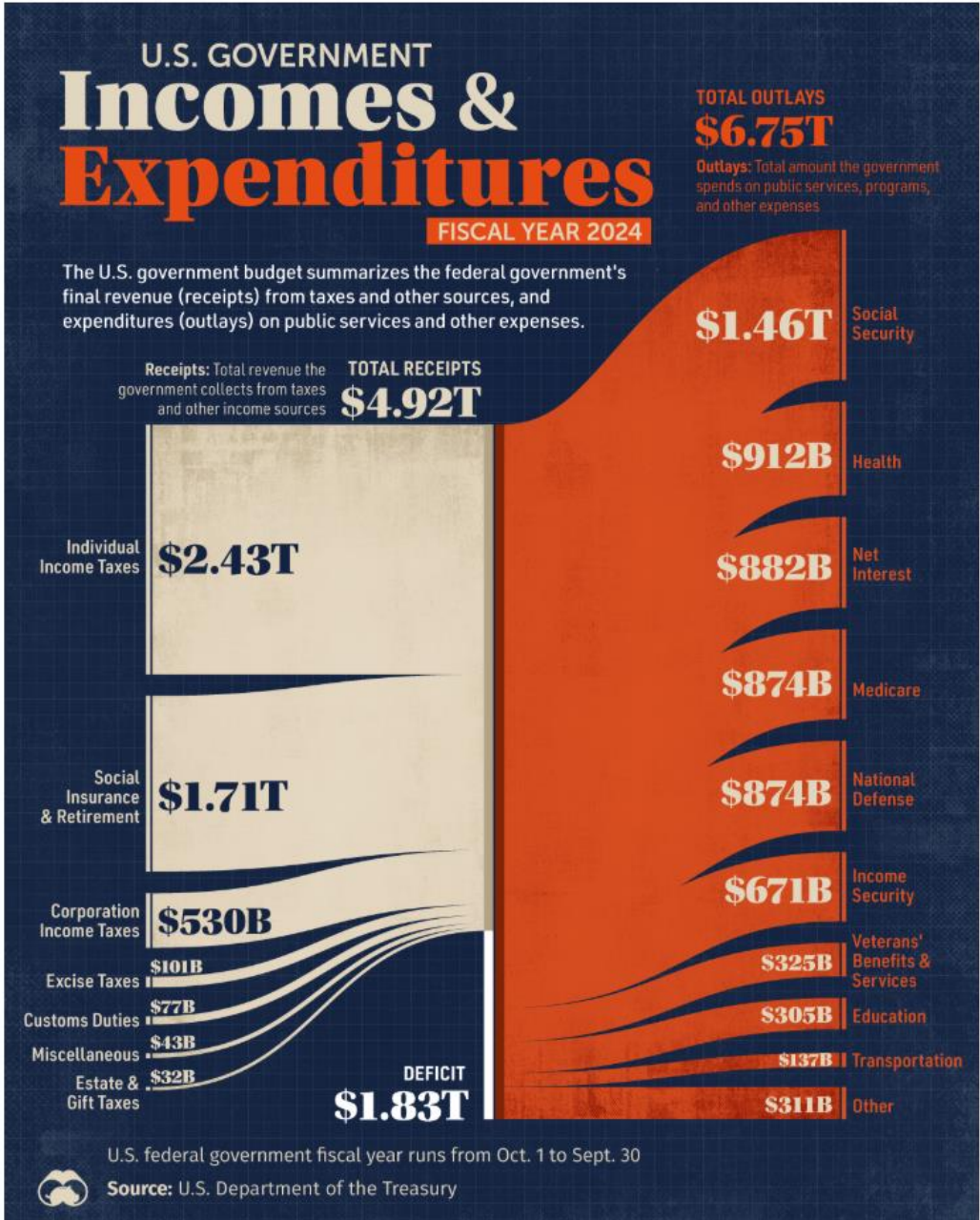
https://www.whitehouse.gov/presidential-actions/2025/08/democratizing-access-to-alternative-assets-for-401k-investors/?utm_source=chatgpt.com

Fiscal Dominance and Policy Implications

The hype on precious metal but especially gold is a clear signal that the fiscal dominance in the U.S. has taken over and the independence of the Fed is truly at risk.

Fiscal dominance refers to a situation in which **government spending priorities effectively dictate monetary policy**. In such a scenario, the central bank becomes constrained and its actions are largely determined by the need to support government finances rather than focusing purely on inflation or growth targets.

Breakdown of the US government receipts and outlays:

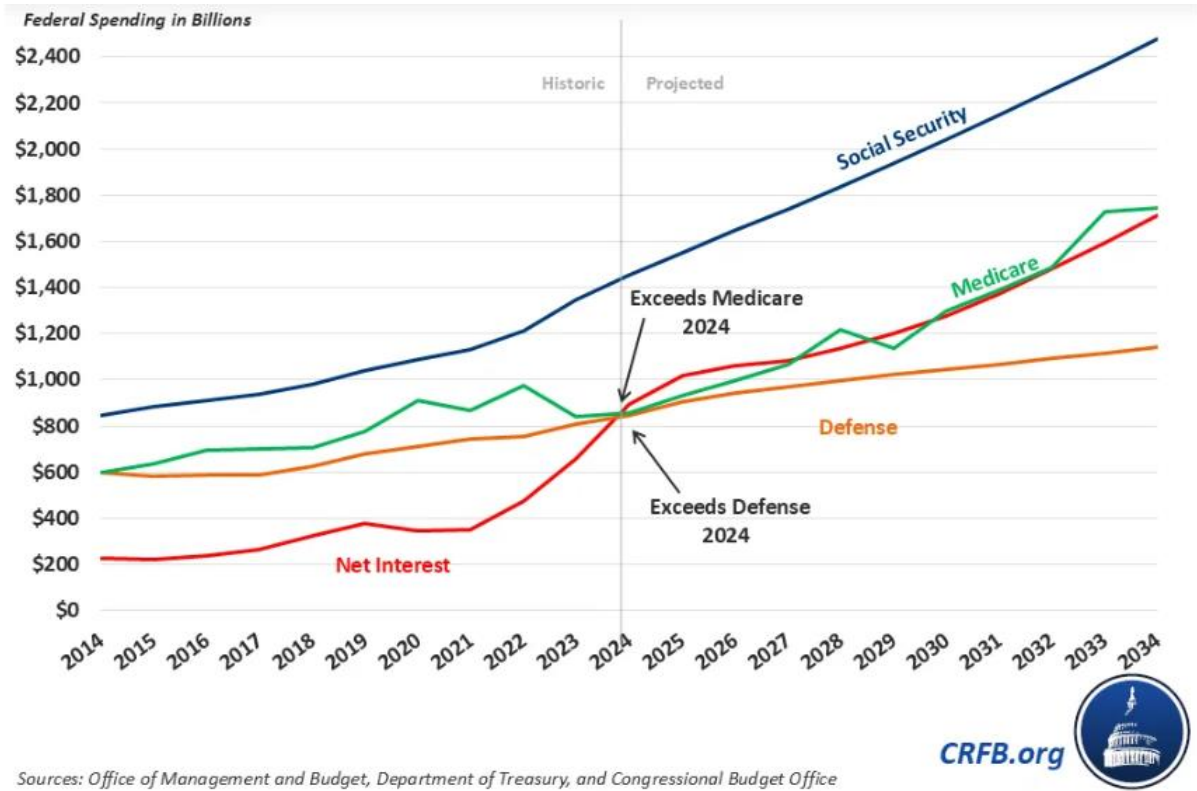


In the case of the United States, the fiscal deficit has reached levels that make it increasingly difficult to sustain without monetary accommodation. The central bank is basically forced to support government finances. While fiscal austerity would represent the most appropriate policy response in this environment, implementing meaningful reductions in entitlement spending remains politically

impractical. Historically, such measures have proven deeply unpopular and are rarely pursued in the lead-up to midterm—or any—elections.

In other words, the US administration has to bring down the deficit and the only budget item they can attack is the interest cost of the outstanding government debt which is making up 3.1% of GDP! To put that in context, interest payments have surpassed defense spending and represent about 13% of total federal expenditures—an exceptionally high figure by historical standards.

Chart: Federal Spending in Billion USD historic and projections



U.S. Treasury Secretary **Scott Bessent** has repeatedly emphasized in public remarks that interest rates are too restrictive, by as much as **200 basis points**, and need to be reduced. The administration’s policy stance appears clear: stimulate economic growth, tolerate higher inflation, and ultimately reduce the real burden of government debt through a **weaker U.S. dollar**.

To achieve this, the Federal Reserve may need to **reintroduce quantitative easing (QE)** and potentially **implement yield curve control**, reminiscent of the post-World War II period (1946–1951). In practical terms, this would involve substantial monetary expansion - effectively printing money - to cap yields and manage debt service costs.

If the U.S. dollar is set to depreciate, the natural question becomes - **against what?** Will it weaken primarily relative to other G7 currencies, emerging market currencies, or a broader basket of global peers? To some extent, the dollar is likely to decline against most of these. However, this trend has limits, as other central banks will inevitably be compelled to adopt similar easing measures.

No major exporting economy can afford to tolerate a persistently strong currency without risking significant harm to its industrial base and growth outlook. As a result, the global policy response is converging toward a coordinated form of **financial repression** - a deliberate strategy to manage excessive debt through low real interest rates and controlled currency depreciation - often referred to as the “**debasement trade.**”

So, what will the U.S. dollar ultimately depreciate against? Most likely, it will weaken relative to **scarce, hard assets**—notably **precious metals such as gold, base and industrial commodities**, and increasingly **Bitcoin**, which stands as the **most finite of all**. As monetary and fiscal authorities pursue policies that erode the real value of fiat currencies, capital is expected to migrate toward assets offering **durability, scarcity, and protection against monetary dilution.**

Here is an example. Back in 2012, it required approximately **1,726 Bitcoin** to purchase one unit of the S&P 500. Today, that same exposure can be acquired for roughly **0.05 Bitcoin**. While the S&P 500 has appreciated significantly in **U.S. dollar terms**, it has **lost more than 99.99% of its value when measured in Bitcoin**. This striking divergence underscores the profound impact of monetary debasement and highlights Bitcoin’s decade-long outperformance as a store of value relative to traditional financial assets.

Chart: S&P 500 priced in Bitcoin and Bitcoin closing prices



Source: <https://charts.bitbo.io/sp500-btc/>

From a strategic perspective, this environment favours allocations to **real assets and alternative stores of value**. These exposures not only provide a hedge against the ongoing debasement of paper currencies but also position portfolios to benefit from a structural re-pricing of scarcity in the global financial system.

Why, then, did the U.S. administration move in early August to open the nation's retirement system to **alternative assets such as Bitcoin and gold**? The writing is on the wall: policymakers recognize that the only viable path out of an unsustainable debt trajectory is through a **managed debasement of the U.S. dollar**. In this environment, **real and scarce assets** - those not easily inflated away - are expected to play an increasingly important role in preserving purchasing power and portfolio stability.

Kind regards,

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