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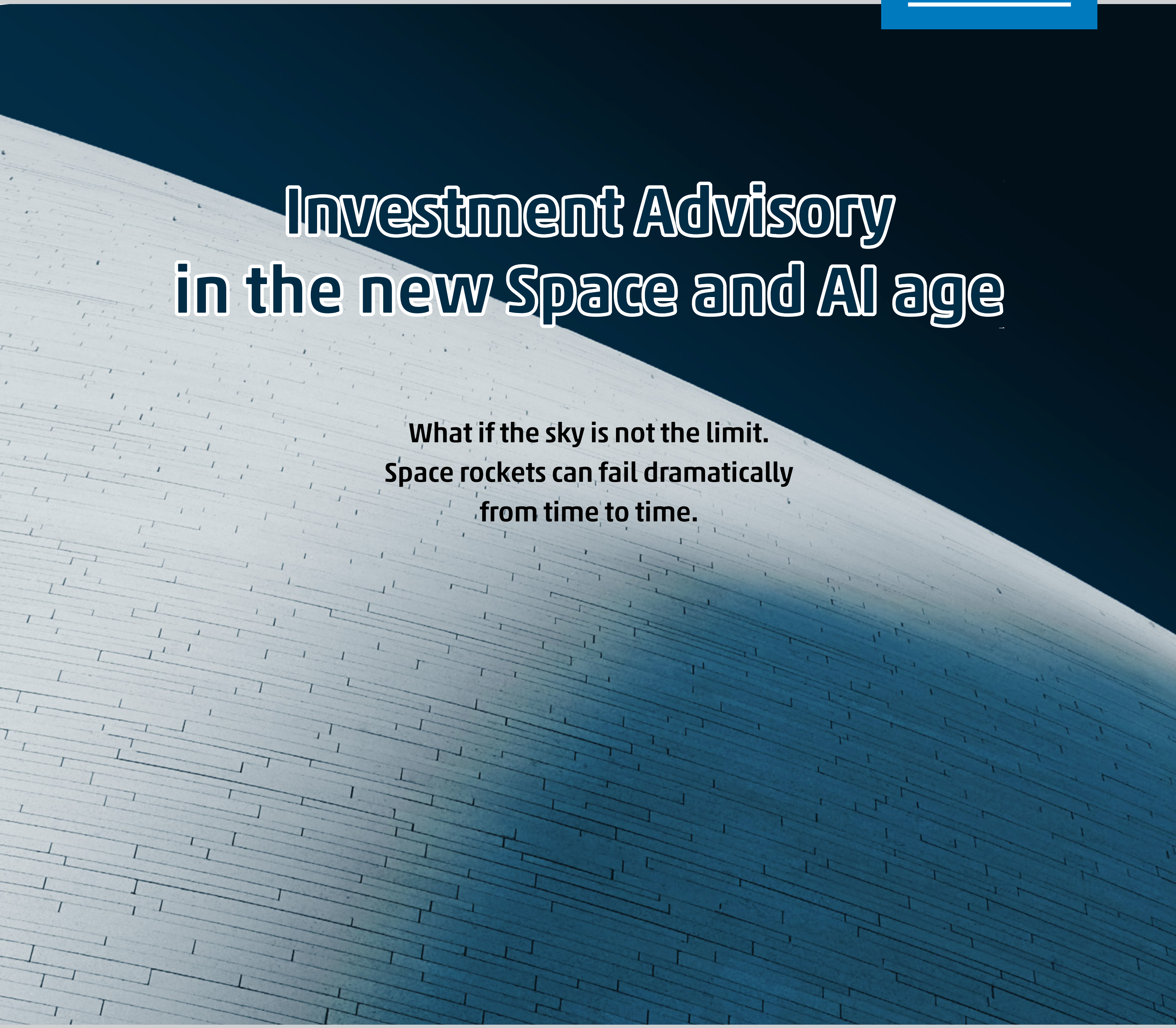
True Partner Capital



Investment Advisory in the new Space and AI age

**What if the sky is not the limit.
Space rockets can fail dramatically
from time to time.**

06-2026, Hong Kong

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Being a True Partner

True Partner Capital

About True Partner Capital

True Partner Capital is a global asset management firm founded by a team of former options market makers and technology specialists, focusing primarily on equity volatility strategies. The Firm has offices in the US, Europe and Asia and the key personnel have been working together for over 15 years. The Firm invests on behalf of a varied global investor base. We offer our investment expertise to investors through commingled funds, separate mandates and customized solutions where we offer tailored volatility solutions, such as tail risk hedging. The Firm's relative value volatility strategy has a track record of over 15 years. The Firm trades close to 24 hours a day across liquid global derivative markets and leverages proprietary technology developed by our experienced team, enabling the portfolio management team to identify and capitalize on trading opportunities.

Investment Advisory in the new Space and AI age

What if the sky is not the limit. Space rockets can fail dramatically from time to time.

In a televised speech in the late 1990's, then Federal Reserve Chairman Alan Greenspan coined the financial expression of irrational exuberance.

To quote him exactly: *"Clearly, sustained low inflation implies less uncertainty about the future, and lower risk premiums imply higher prices of stocks and other earning assets. We can see that in the inverse relationship exhibited by price/earnings ratios and the rate of inflation in the past. But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?"*

With the power of hindsight, such questions are easy to answer. But when asset prices display an increasingly steep upward trajectory, investment managers face a difficult dilemma. Reduce exposure and possibly miss out on any continuation or remain fully invested and bear the brunt of any correction.

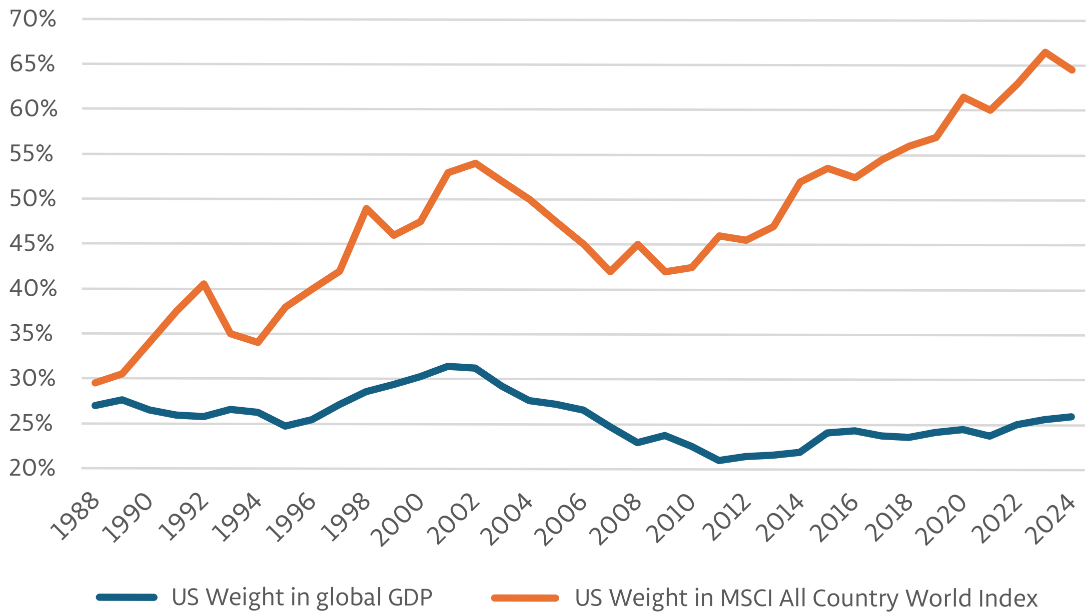
When thinking of upward trajectories and with the recent SpaceX IPO in focus, the analogy with space rockets is easy to make. Out of all launches the number of failures is not negligible and when they happen they are often very dramatic and costly. The most recent example was Blue Origin New Glenn rocket this May with a massive ground-based explosion during a hot-fire test.

Fortunately, portfolio construction is not just a binary choice. Craftily constructed portfolios can take the sharp edges off, striving for the goal of having one's cake and eating it too. This is where True Partner Investment Advisory can assist. In this article we will highlight some developments which we believe to be underappreciated in current portfolio construction.

1) The dominance of US equities in global market benchmarks

The United States represents 26% of global GDP and 4% of the global population. But the world's largest economy punches well above its weight in global equity markets. As visible in the below graph, the share of US equities in the MSCI All Country World Index has more than doubled from around 30% in the late 1980's to well over 60%. But the graph also shows that over the same timespan, the United States' share of global GDP has remained more stable.

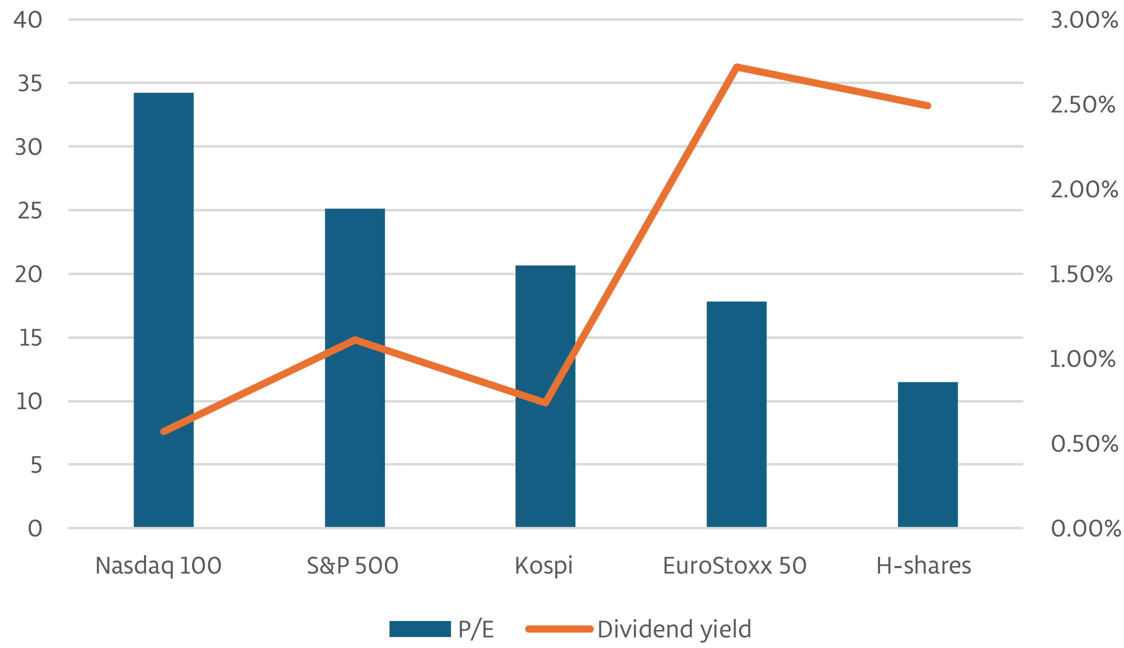
US GDP does not match the global dominance of US equities



Source: LPL Research, MSCI, Y-charts

The main driver of the over-representation of US equities compared to US GDP has been the stock market valuation. Nowadays, the price/earnings ratio of US markets towers above that of other global markets. At the same time, holding US equities provides relatively low dividend income, particularly when compared to European and China equity indices.

US equities are highly valued and low yielding



Source: Bloomberg data

In other words, generally speaking, investing in US equities at these levels appears to be highly geared towards future growth. This growth of US companies is priced to occur outside of the US as well, as reflected by the share US companies hold in the global investable universe compared to the share of US GDP. US companies are not only priced for economic perfection but also for geopolitical perfection.

Since the 1980's the US capital markets have become the de-facto global capital markets, leaving previously more comparable financial centers such as Europe and Japan far behind. This arrangement has clearly benefited the United States. Starting from the Marshall Plan, the US investments in post-World War II Europe (and Japan) have paid their dividends and this puts the current discussion about NATO in a different perspective. The transatlantic relationship, and to a lesser extent relationship between the US and its Asia Pacific allies, has been a two-way street as the US military umbrella also allowed for a financial world order which was anchored around the US capital markets.

Since the start of the second Trump administration, the United States' global framework of alliances has come under severe pressure, as Trump charts an increasingly mercantilist course. 'America First' seems to be associated with a zero-sum game in which synergies do not exist and one party's gain must be the counterparty's loss. Next to defense, this dynamic is also reflected in the implementation of trade tariffs in which allies appear to be treated more harshly than adversaries.

Already, a response is seeping into the financial markets as Danish pension plans divested out of US treasuries following Trump's threats on Greenland. Other large holders of US treasures may follow suit if the geopolitical situation deteriorates. Foreign investors in the US also face a risk following a provision in the "Big Beautiful Bill". The Section 899 ('Revenge Tax') levy could force punitive withholding taxes on foreign investors and multinational corporations operating in the US. In addition, freezing assets of foreign nations or nationals also has become a more frequently used political tool for the US.

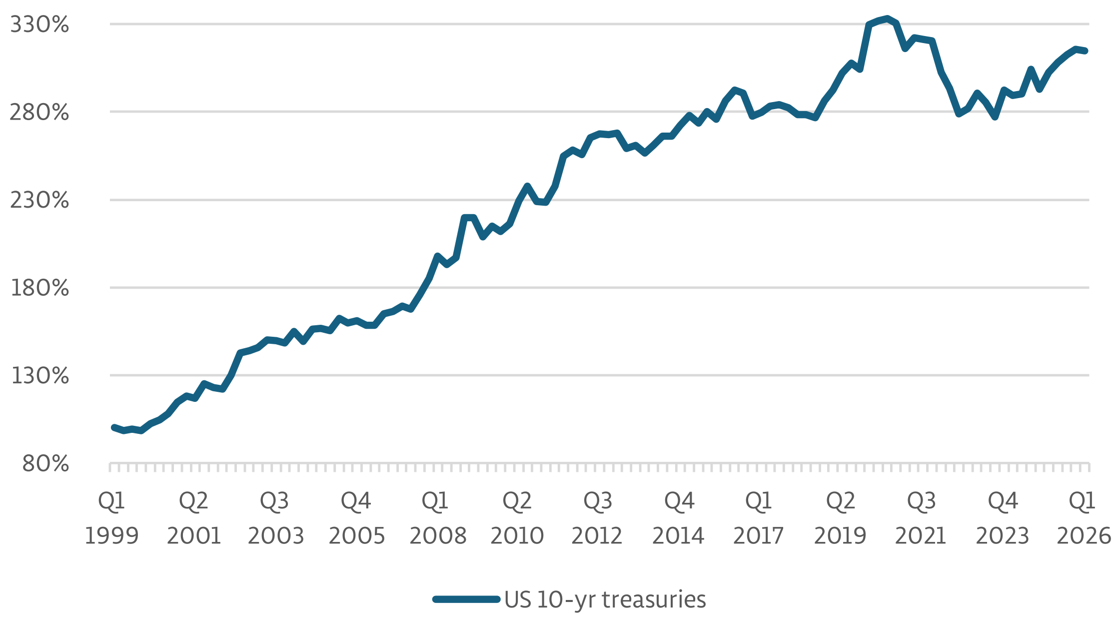
All in all, the post-World War II world order seems more and more likely to unravel, but at the same time, current valuations of US assets assume a continuation of these benign arrangements. This development calls for a thorough evaluation of investment allocation practices:

- To what extent is a strategic benchmark which incorporates the current US dominance valid for non-US investors?
- To what extent should tactical asset allocation take into account the extreme US dominance in the investable universe?
- To what extent do investment managers need to plan for politicization of investment, where geopolitical factors come into play?

2) Bonds migrating from diversifier to source of risk

The classic 60/40 portfolio allocated a large portion of investments to bonds as bonds provided predictable income as well as a cushioning in periods of market turmoil, as rates tended to decline in a rush to safety. But both of these beneficial characteristics have been deteriorating over the past decade. The graph below shows the cumulative returns on 10-year US treasuries from early 1999 onwards (the start date of the NYSE 10 yr treasury future total return index).

US treasuries generated more limited returns…



Source: Bloomberg data

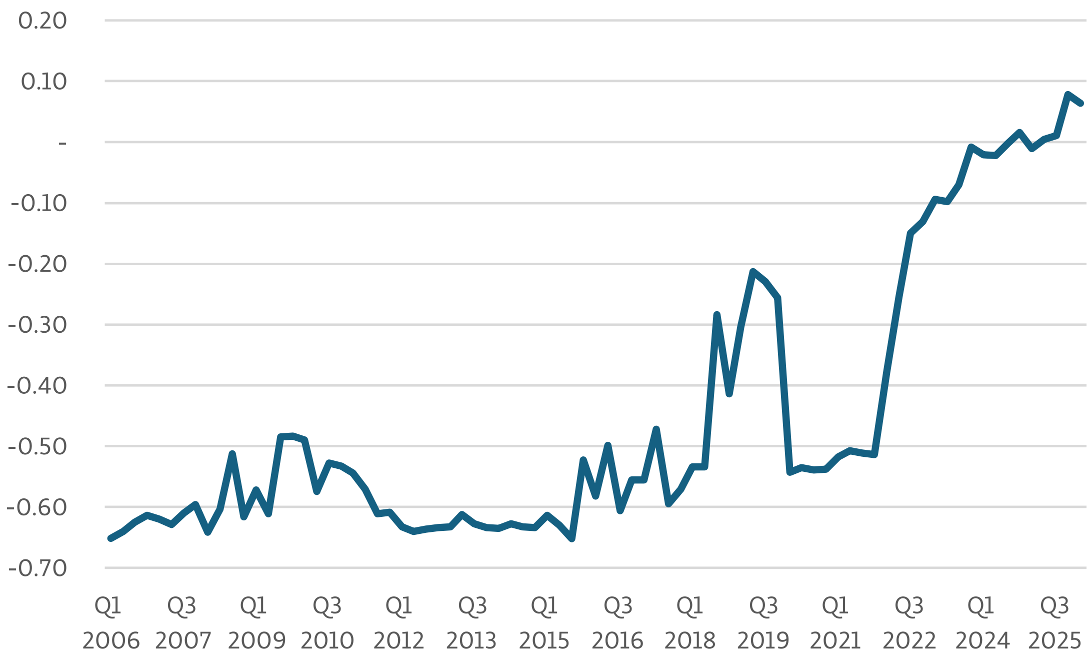
From the mid-2010's onward, the steady upward curve started to flatten as low yields made holding treasury bonds less rewarding. Over the same period, the US debt to GDP ratio has doubled from 60% in the first quarter of 1999 to the current 123% as per Q1 2026. From the Covid pandemic onwards, the ratio has held around 120% with the current trajectory pointing upward again following the tax cuts of the 2025 'Big Beautiful Bill'.

The bump around the Covid pandemic (quarterly return of 8.4% for Q1 2020) was relatively smaller than the gains at the worst quarter of the Great Financial Crisis (quarterly return of 11.6% for Q4 2008). However, in the brief market turmoil surrounding both the April 2025 tariffs or the current war in Iran there were no gains at all as treasuries declined along with equities.

The reason for this might be simple, the risk of holding US treasuries is higher than it used to be. Not many seem to care but for some time already the US no longer holds a AAA rating as the major agencies all cite the increased national debt, the rising debt-servicing costs from higher interest rates and political polarization as reasons for their downgrades. Moreover, with the higher inflation and the political pressure to keep interest rates low, returns are not likely to outpace inflation much at current levels.

The below graph shows the 5-year rolling correlation between the returns on 10-yr US treasuries and the MSCI world index. Along with the increase of the risk of holding US treasury bonds and the decrease of the benefits thereof, the cushioning characteristics have declined as the correlation which was consistently negative earlier this century has flattened to neutral.

… while US treasuries offered far smaller diversification benefits



Source: Bloomberg data

In light of worries on solvency of governments the world over, and facing stubborn inflation over the past years, one would do well to evaluate the use of portfolio diversifiers. At True Partner Capital, we have always believed in the power of volatility as a powerful and liquid diversifier. Questions portfolio managers should ask themselves:

- Are allocations to crisis alpha actually providing protection. The scenarios in which these diversifiers will deliver highly depends on the components chosen?
- What alternative investment strategies can provide superior crisis alpha and convexity in periods of market stress?

One popular avenue for diversification has been private markets, but these come with their own potential difficulties:

3) Private markets and volatility

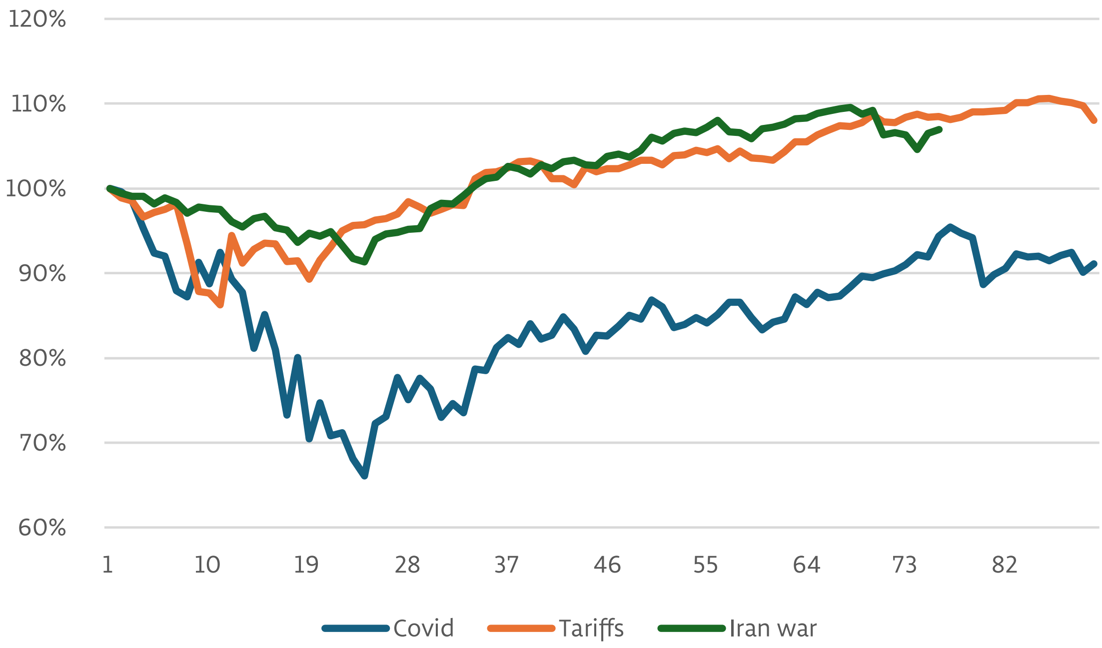
Last February, two reporters at CNBC used Anthropic's Claude tool to build a functional clone of Monday.com, a project management platform which had a USD 5 billion market cap at the time. In a matter of hours, they had achieved a workable prototype. The news of the 'vibe coding' to replicate the products of 'Software as a Service" hit like a bombshell. Monday.com saw its stock fall 30% and the shares of fellow SaaS providers tanked in unison. Public equity markets are continuous exercises in price discovery, in which new information nearly immediately gets translated into the share price. Depending on which strength of Eugene Fama's market efficiency one subscribes to, new information is generally believed to be immediately reflected in the market price.

New information can thus result in sudden, severe, price changes, as the Monday.com example shows. While Monday.com shares still languish not far from their lows, other companies saw their shares rebound from earlier lows after additional information and analysis was processed by the market. This continuous price discovery function of public markets sets them apart from price formation in private markets, where periodical marks are provided by the private manager or a third-party advisor.

But in various methods of investment analysis, public market investments are punished for the availability of continuous pricing. Sharp and Sortino ratio's are impacted by strong movements, even when they subsequently reverse. Notably, the Sharp ratio even punishes upside volatility, about which investors very rarely complain.

In market crises, initially marks in private markets tend to be sticky exhibiting something of a "wait and see" approach, while public markets immediately respond. Since the Covid pandemic of 2020, the market recoveries have been nearly as fast as the declines. The below graph shows the 90 trading days from the peak prior to the Covid pandemic, April 2025 tariff announcement and the current war between the US and Iran (for which less than 90 trading days are available)

V-shaped recoveries provide a false sense of stability for infrequently marked assets



Source: Bloomberg data

Applying a quarterly valuation for these three instances would have yielded a far more benign picture. Likely no impairment for the tariffs and the Iran War, and if anything a much milder impairment in Covid as compared to public market lows. When applying historical data in ALM and risk-scenario analysis, this phenomena of V-shaped market corrections handicaps public markets, while for private markets the superior volatility profile would only be representative if future corrections follow a similar V.

Oftentimes, private markets are deemed to provide superior returns to public markets because of the monetization of illiquidity risk. But that monetization is nothing more than compensation for an actual risk. It is more than the inconvenience of having to plan for longer holding periods and not being able to exit quickly. There are situations when the entire investment narrative may change. This is where the earlier example of Monday.com comes back into play.

The vulnerability of Software as a Service for disruption from AI caused significant headaches for investors in the post-Covid private equity vintages and the private loans associated with these vintages. Flush with investor capital and facing low interest rates, the private equity complex went all-in on the recurring revenues of SaaS, acquiring software companies at valuations likening it to true utilities.

In light of the disruption by AI, investors simply wanted out, as reflected by the recent wave of Business Development Companies which had opted to restrict redemptions (imposing a so-called 'gate') in the face of significant redemption requests. That the private credit industry highlights that for the lenders to face a hit, the private equity owners would need to be wiped out first may be factually correct, but does not provide that much reassurance to private market investors. An honest look at private market calls for an evaluation of allocation and risk assessment:

- Are there better means to model private market risk and apply (more frequent) shadow valuations?
- What is the actual cost of the illiquidity premium which private investments aim to monetize?

True Partner Investment Advisory can help

To conclude we highlighted three high-level aspects of portfolio construction that we believe are currently underappreciated. This focus does not entail that the immediate market outlook is sanguine. Among others, we could comment on the stellar artificial intelligence and associated semiconductor boom driving equity markets as most of stocks in this space 'went vertical'. Our doubts on the sustainability of the rally are somewhat more common as the pricing pattern is plain to see for everyone.

Members of the True Partner Investment Advisory team have a wide range of experience. From a historical perspective having traded the dot-com bubble in 2000 to the GFC lows of 2008, from the European debt crisis in 2011 to negative interest rates and to the all-time highs in equity markets of now and everything in between. But also, from a geographical perspective having traded in the US, Europe and Asia. The team has witnessed changes in market structure all over the world, ranging from the advent of algorithmic and high-frequency trading to the rise of Chinese GDP and its equity markets and its opening up.

We are happy to provide a confidential third-party opinion on current portfolio construction and asset allocation and give suggestions for improvement or even undertake actual implementation.

About the authors

Mr. Govert Heijboer, Co-CIO of True Partner, has been active as a market maker trading in the European and Asian derivatives markets as well as positional trading since 2003. Govert started as a trader/researcher at Saen Options in Amsterdam and rose to become the director of derivatives trading and a member of the executive team in 2007. In 2008 he moved to Hong Kong to set up and assume responsibility for all trading activities in the new Saen Options Hong Kong branch office. Govert holds a PhD in Management Science and an MSc in Applied Physics from the University of Twente, Netherlands. He is a founding partner of the Firm.

Mr. Tobias Hekster, Co-CIO of True Partner, has been actively trading for the past 29 years in various different roles in several markets across the globe. Starting at IMC in 1998 as a pit trader in Amsterdam, Tobias has established the off-floor arbitrage desk, headed the Chicago office in the transition from floor trading to electronic trading and set up the Asian volatility arbitrage desk in Hong Kong. Tobias holds an MSc in Economics from University of Groningen, Netherlands. Next to his role as Senior Strategist, he taught as an Adjunct Associate Professor at the Chinese University of Hong Kong and as an Adjunct Professor of Financial Practice at National Taiwan University.

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