

A nighttime cityscape with a full moon in the sky. In the foreground, a bridge with many cables spans across a body of water. The water reflects the lights from the buildings and the bridge. On the left, there is a modern building with a curved, illuminated facade. In the background, several other buildings are visible, some with lit windows. The overall scene is in shades of blue and white.

# **BAGGOT**

Investment  
Partners

General Update

MAY 2026

# We build and maintain portfolios for clients which address their specific needs

Baggot is a Central bank regulated investment manager. We specialize in designing and monitoring investment strategies that are built using global investment products and assets. Where almost all financial advisors and brokers would simply refer your business to a large external manager, in return for a commission, we use in-house expertise to actively manage your assets.

We offer Investment strategies across various risk profiles. In many cases, we build portfolios in-line with our client's specific needs (CGT focus, Income focus, etc.).

As a principle at Baggot, we do not charge upfront fees or expose our clients to lock-up periods. You can add or withdraw funds at any time and switch between strategies at no extra cost.

If you would like a review of your current investment strategy or to discuss future investment opportunities please contact us.

**Call 01-699 1590**

**Peter Brown**  
**Managing Director**

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# 01.

## Portfolio Performance

On product returns, it should be noted that our return numbers include all charges, which is not the case for our benchmarks. Benchmarks show you returns before taking account of all charges. If we reported our returns before accounting for all charges, our returns would look significantly higher than our reported numbers. Product returns are for Q1, 2026.

### Baggot Equity Income (BEI)

- BEI Q1 Return: 12.7% (YTD 12.9%)
- Benchmark Setanta Dividend Fund Q1 Return: 2.3%
- BEI Q1 Outperformance: 10.4%

### Baggot Multi-Equity (BME)

- BME Q1 Return: 5.7% (YTD 7.6%)
- Benchmark (MSCI World Euro terms) Q1 Return: -1.5%
- BME Q1 Outperformance: 7.2%

### Baggot Multi-Asset 6 (BMA 6)

- BMA 6 (High Risk) Q1 Return: 7.0% (YTD 9.0%)
- Benchmark Irish Life MAPS 6, Q1 Return: -2.4%
- BMA 6 Q1 Outperformance: 9.4%

### Baggot Multi-Asset 5 (BMA 5)

- BMA 5 (Medium-High Risk) Q1 Return: 5.6% (YTD 8.1%)
- Benchmark Irish Life MAPS 5, Q1 Return: - 1.8%
- BMA 5 Q1 Outperformance: 7.4%

### Baggot Multi-Asset 4 (BMA 4)

- BMA 4 (Medium Risk) Q1 Return: 2.9% (YTD 4.9%)
- Benchmark Irish Life MAPS 4, Q1 Return: - 1.0%
- BMA 4 Q1 Outperformance: 3.9%

## Observations

We outperformed benchmarks and peers in all of our investment products in Q1 2026. The main reasons; In our Equity products, we had significantly less exposure to US Equities than our peers in Q1, favouring European, Japanese, Emerging Market and Global Value Equities.

Where it relates to multi-asset products, we captured significant upside by selling our entire Silver position near enough the all-time highs in late January. That was a big win. Our Equity & Multi-Asset products have also benefitted from being overweight Energy this year. Also where we have to hold Bonds in order to dampen risk profiles in our Multi-Asset products, we continued to keep our Bond exposure in the Ultrashort Dated Investment Grade space, while our peers have favoured longer duration Bonds. That has been a big win over time as well.

It seems counter-intuitive to many that longer duration Bonds in Europe continue to dramatically underperform shorter duration Bonds, given that the ECB has cut interest rates eight times since June of 2024. We've gotten things wrong before too. Everyone is human, but ultimately for us, it is down to the fact that ultra-short duration Bonds have a risk profile in the 1-2 range, while longer duration government Bonds have a risk profile in the 4-5 range.

Risk Rating	Volatility Ranges	
	Equal to or above	Less than
1	0%	0.5%
2	0.5%	2%
3	2%	5%
4	5%	10%
5	10%	15%
6	15%	25%
7	25%+	

We believe that we live in a world where governments and central banks cannot allow Bonds to generate returns in excess of inflation. In that world, longer duration Bonds are much more risky, so for the risk, we much prefer assets that can track or even beat these longer term inflationary policies, such as Equities and Commodities.

# 02.

## Market Returns Summary

### Asset Class Returns

Asset class return numbers noted below are all based in Euro denominated terms. Data taken from investable European Equity, Bond, Commodity and Crypto ETFs, which include costs as well as dividend payments.

For perspective when comparing returns, the Euro lost – 1.25% vs the US Dollar in Q1 2026.

### Equity ETF Q1 Returns Leaders & Laggards (Euro denominated returns)

Q1 Leaders: MSCI Latin America, FTSE 100, MSCI Japan

Q1 Laggards: MSCI India, German DAX, MSCI China

### Q1 Equities ETF Performance (Euro denominated returns)

#### S&P 500

-3.5%

#### NASDAQ 100

-4.8%

#### Euro Stoxx 50

-3.6%

#### German DAX

-7.6%

#### Stoxx Europe

600

-1.2%

#### FTSE 100

3.5%

#### MSCI EM Asia

0.5%

#### MSCI China

-7.1%

#### MSCI Latin America

16.5%

#### MSCI Japan

2.7%

#### MSCI World

-2.3%

#### MSCI Emerging Markets

1.8%

#### MSCI India

-15.5%

#### MSCI Asia Pacific ex-Japan

1.1%

## Bond ETF Q1 Leaders & Laggards (Euro denominated returns)

Q1 Leaders: US Inflation Protected Bonds, Global Aggregate Bonds, US 10+ Year Treasury Bonds

Q1 Laggards: EM Bond ETF, Europe Aggregate Bond ETF, Europe Investment Grade Ultrashort dated Bond ETF

## Q1 Bond ETF Performance (Euro denominated returns)

US 10+ Year Treasury Bond ETF	German 10+ Year Bund ETF	EM Bond ETF
1.7%	0.3%	0.1%
Europe Aggregate Bond ETF	US Inflation Protected Bonds	Global Aggregate Bond ETF
0.2%	2.4%	1.8%
Europe Inflation Linked Bonds	Europe Investment Grade Ultrashort dated Bond ETF	
1.5%	0.2%	

## Q1 Precious Metals ETF Performance (Euro denominated returns)

Gold	Silver	Platinum	Palladium
7.1%	0.4%	-3.9%	-5.6%

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## Q1 Industrial Metals ETF Performance (Euro denominated returns)

### Copper

0.6%

### Nickel

4.3%

### Aluminium

20.1%

## Q1 Energy ETF Performance (Euro denominated returns)

### Brent Crude

79.4%

### WTI Crude

83.5%

### US Natural Gas

3.1%

### European Natural Gas

99.5%

## Q1 Crypto ETF (Euro denominated returns)

### Bitcoin

-22.0%

### Ethereum

-28.7%

### Solana

-33%

### NASDAQ Crypto Index

-24.5%

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# 03.


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## War

It was a wild first quarter to say the least. They say in the fog of war the first casualty is the truth. You listen to the US media and you hear one thing. Listen to the media in the Middle East and you hear another thing. The only things you can take for fact, are in the data. What do we know for fact? We know that roughly 20% of the world's total daily fuel consumption passes through the Strait of Hormuz. As I write (May 7) it appears that there may be a peace deal on the table between the US and Iran. Maybe it's true and maybe not. If that is true and lasting, global equities will rise but there will be scars. For starters, there will be major shortages in the coming months and it should take quite a while for energy shortages to abate. Further, the world has changed from one where it was only about the price of energy to one that is about access to energy. Consequently, we expect that over the longer term many countries will seek to build stockpiles of energy and other important commodities. This should increase demand for energy, commodities and critical materials over the coming years.

Another consequence of this war is the shortage of things like UREA, a key raw material derived from natural gas which is needed to produce fertilizer. Farmers are facing soaring costs and limited availability for spring planting. Even if the war is over, these shortages will most certainly lead to lower crop yields which should push prices of Agricultural commodities higher. It's hard to see how this doesn't cause food inflation globally over the coming year.

Another key raw material is Sulphuric Acid which is derived from Sulphur, an important by-product of natural gas and petroleum refining. Sulphuric Acid is a vital industrial chemical used primarily to produce phosphate fertilizers, lead-acid car batteries, chemical manufacturing (dyes, detergents, explosives) and metals processing. It is known as the king of chemicals. You can't produce Copper, Uranium, Steel or Nickel (among other metals), without it. The Strait of Hormuz is a critical choke point for global sulphuric production. Approximately half of global seaborne raw sulphur, the primary feedstock of Sulphuric Acid, travels through the Strait of Hormuz. Everything is affected by it, semiconductors, data centres, autos, agriculture, you name it.



Even if this war is over and everything goes smoothly from here, we are going to see major shortages of raw materials that are vital to the functioning of the global economy. This should be inflationary for some time to come.

Another major impact of this war is the bickering between Trump and Europe. Recently Trump ordered the withdrawal of 5000 troops from Germany. A move the US expects to complete in the next 6 to 12 months. Trump has also indicated that he will most likely remove troops from Italy and Spain as well. It is suggested by the media that this is a consequence of the lack of support from Europe for the war in Iran. This is a signal to Europe that NATO is fracturing. It's only logical to conclude that Europe will have to ramp up defense spending even more. This is inflationary, particularly at a time when many of the critical materials that will be needed to bolster European Defences are in short supply.

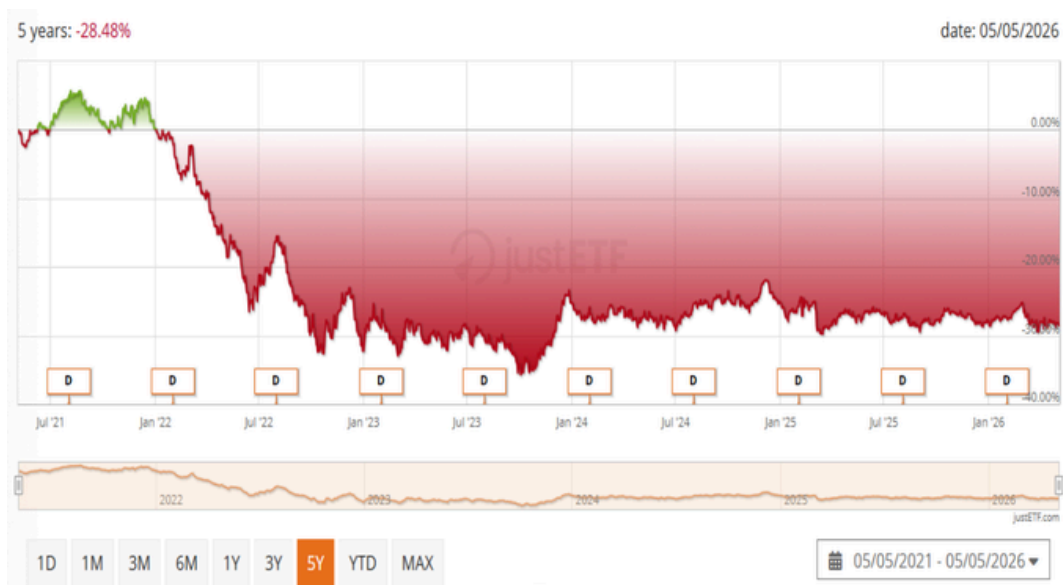
Everywhere you look, you see inflationary forces and since Covid, every time markets signal the potential for deflationary forces to set in, governments around the world, print money to stave off trouble, which artificially props up the global economy, at the expense of your purchasing power. In that world everything finite, everything limited in supply, Commodities, Land, Property, Equities, it is all valued in infinitely printable money. Until governments and policy makers change their playbook, the game is the same. Companies can raise their prices when inflation sets in. Equities and Commodities are much more limited in supply, than the supply of money. Equities and Commodities tend to hold up better during periods of inflation.

Who loses? If you are sitting in cash at the bank on deposit, sure, your money is probably safe, but I paid €15.50 at the chipper for a burger, chips and a coke for my son last week. How much did that cost you pre-Covid? I'm guessing half that. Roughly half of all Dollars (global reserve currency) created, have been printed since 2020. That's a dramatic loss of purchasing power for money on deposit! But if you have owned assets like Equities, Commodities, Land or Property, you've most likely kept your purchasing power.

Who else loses? Long duration bondholders have been smoked over the last 5 years due to inflation. Let's look at a simple example.

When you buy a 10 Year Government Bond, you are effectively lending the government money for a period of 10 years. In return you expect to get a yield on that bond, plus your money back at the end of the term. Let's say that yield is 3%. You've lent the government money for a 3% annualized yield over a 10-year period. You get your money back plus 3% annualized for 10 years. In 2022 when inflation rose rapidly, this crushed your real return (the return exceeding inflation). Keep in mind that if you sell the bond before its term ends, the bond price will fluctuate. In an inflationary environment, the value of these bonds will drop, so you may have to sell at a loss. If Inflation averages 5% over the 10 Year term, your real return (return after accounting for inflation) is  $-2\%$  per year, for 10 years. Sure, at the end of the term, you get your money back, plus 3% interest per annum over 10 Years, but you've lost 20% of your purchasing power in real terms ( $-2\% \times 10 \text{ Years}$ ) for the entire term.

The chart below shows the State Street SPDR Bloomberg 10+ Year Euro Government Bond UCITS ETF total return (return including yield) over the last 5 years. Where you see a 'D' at the bottom of the screenshot, that's the yield paid out as a Dividend.

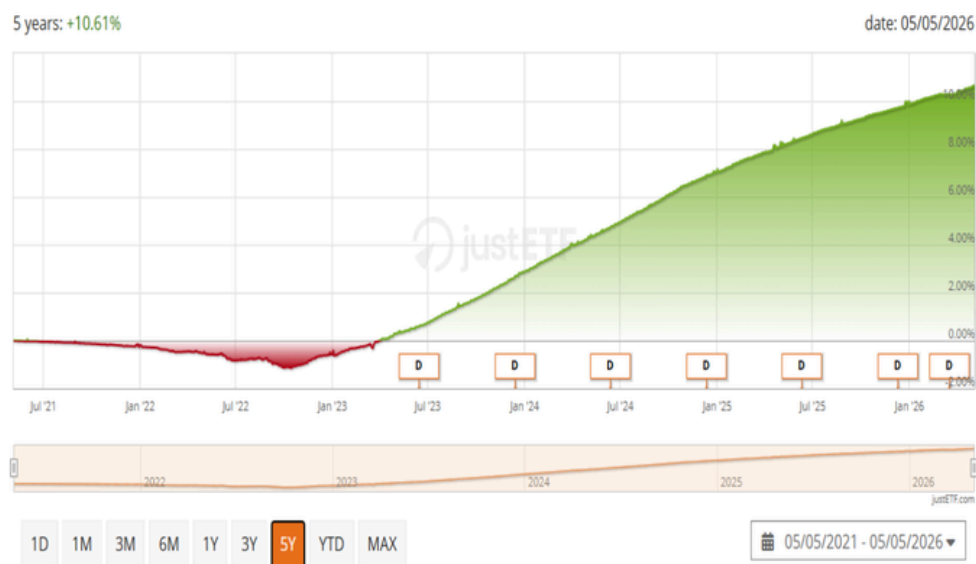


This ETF has lost  $-28.48\%$  over the last 5 years. That's a total return chart (return shown including dividends) where the yield is included in the return. A  $-5.7\%$  average loss per year over the 5 year period.

That's what inflation does to long duration bondholders when yields are below the rate of inflation. In these types of environments, Shorter Duration Bond Bond Investors fare much better.

T-bills have a duration of one to three months. For simplicity we'll assume a 1 month T-Bill at a 2% yield. So in this example, you are lending the government money for a 2% yield, with repayment in 1 month. Now let's say the next month the central bank hikes interest rates to 2.5% because inflation is rising too rapidly. You now buy another 1 month T-Bill (this all happens inside the ETF or Fund wrapper) and the yield is now 2.5%. By the end of the year, let's say interest rates reach 4%. Now your T-Bill is earning 4%. Short Duration Bonds track inflation much better.

The chart below shows the total return of the iShares European Ultrashort Bond ETF over the last 5 years. Where you see a 'D' at the bottom of the screenshot, that's the yield paid out as a Dividend.



This ETF has gained 10.61% over the last 5 years. That's a total return chart (return shown including dividends) where the yield is included in the return. A 2.1% average return per year over the 5 year period. It's not much, but it sure beats losing - 5.7% per year in Long Duration Bonds. This is one reason why Baggot Bond Investors have performed so much better than most of our peers over the last 5 years.

In inflationary environments, Equities and Commodities track inflation better than Bonds and clearly, where you need to own Bonds, it is best to stay in Shorter Duration Bonds.

Regarding Equities, companies can just raise their prices during periods of inflation until demand destruction occurs. Funny enough the S&P 500 gained roughly a 7.5% average annualized return in the first 25 years of the current century while US money supply growth (reserve currency of the world) for the same period was about 6.5% on an average annualized basis. Indeed, Equities have done a decent job of keeping up with inflation (protecting your purchasing power). For context, US 10 Year Treasury Bonds have returned an average annualized total return of 4% for the first 25 years of the current century.

Commodities have a finite supply but are valued in infinitely printable fiat currency, which is why they tend to rise during periods of inflation (Money supply expansion).

Until Governments and policymakers change the playbook and stop expanding money supply it is an inflationary investing template.

Could the environment change? Yes, if we get to a point somewhere down the road where demand destruction occurs and the general population are unable to keep up with inflation in terms of spending, and governments do not come to the rescue with more money printing, then we will see a Deflationary environment and Long Duration Bonds will begin to outperform again. A spike to \$200 a Barrel Crude Oil prices would probably do it. This is something we are paying close attention to and we are ready to respond if the template changes.

Equities have done a reasonably good job of keeping up with monetary expansion for a long time, but Commodities and Commodity Equities can do even better.

“The S&P 500 has returned 1,156% since the 2002 bottom. Priced in gold, it is down 17.5%. Read that twice. Twenty-three years of compounding. Two bull markets. The greatest tech run in history. Tesla, Nvidia, Apple, Amazon all printing trillions. Returns in the top decile of historical equity performance. Priced in something the Fed cannot create with a keyboard, the entire run is a wash. This isn't a gold-bug talking point. It's the cleanest test of currency debasement available. When you measure the S&P in dollars, you measure two things at once: real economic productivity and the depreciation of the unit of account. You can't tell which one the chart is showing you.

Gold is the only widely tradeable asset whose supply growth is roughly fixed at 1.5-2% per year. The dollar's M2 supply has grown over 350% since 2002. Subtract one from the other. Minus 17.5%. The implication is uncomfortable for buy-and-hold investors. Most of what you call portfolio "appreciation" is actually currency depreciation showing up as a higher number on your brokerage screen. Your account is not bigger. The unit you measure it in is smaller. This is why central banks have bought 1,000+ tons of gold annually for three years. They aren't betting on jewellery demand. They are voting on what real money is. Stocks went up. Money went down faster."

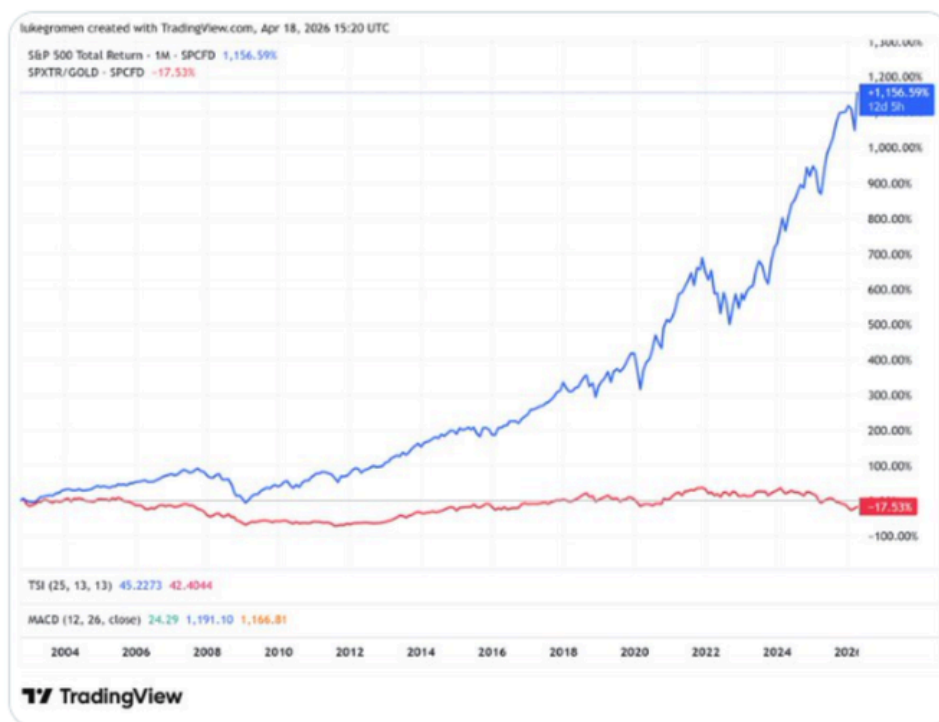
Source: <https://x.com/realarmaansidhu/status/2048204307301064736>



Since the bottom in the S&P 500 in 3q 2002:

SPX Total Return (blue): Up 1,156%

SPX Total Return priced in gold (red): Down 17.5%



It is not responsible to keep all your money in Gold. Having a balanced portfolio of assets that do not all behave the same way at the same time is important, because it helps to minimise downside and keeps portfolio volatility at reasonable levels. The point I am making is that there are opportunities outside of the equity space that can help investors to generate decent returns in inflationary environments. You just won't find them in bog standard investment products.

Keep in mind the X.com posts above are using S&P 500 because most of the investing world is heavily exposed to it. In spite of all the AI hype; since Trump took office the S&P has underperformed European, Japanese, Latin American and Emerging Market Equities in Euro-terms by a wide margin. In fact, some of our Equity positions have actually beaten Gold's return since Trump took office.

Regardless, we at Baggot will continue to do what we do. We buy assets that are relatively cheap. We try to do that at points in time where too much is discounted into the price, setting a low hurdle for relatively high returns. Markets are discounting mechanisms, they price in what they know, discount those things and look forward, not backward. Once too much is discounted we don't need to know what will drive them higher, just that the asset in question doesn't go down anymore on bad news. If a cheap asset won't go down on bad news, what do you think will happen when there is good news? We've seen a few examples of that behaviour this year. When we increased our weightings in Energy and chemical stocks (ENI in BME & BEI, Total Energy Services in BME & BEI, Lyondell Basel in BEI, Oil Services in some of our Multi-Asset products), we had no idea that a war was coming which would drive them higher. We simply knew that they were cheap and beginning to act relatively well. Markets had discounted too much on the downside and these assets were offering a high margin of safety because they were priced too cheaply. These assets have absolutely blown the doors off the returns of the benchmarks.

It works the same way when things are expensive and too much is priced in. They underperform. A great example of this is Silver. We originally put Silver in our multi-asset portfolios when it was below \$20 per ounce. Early this year Silver went from reasonably priced to very expensive in a short space of time. In late January we exited when Silver was around \$114 per ounce. In late March, Silver traded at a low of \$61.20. Even now it is nearly 29% below our exit price. We didn't have to know what would drive it lower from \$114 an ounce, we just knew that it had discounted too much into the price and that it had become unstable.

The key for me as a manager, is to do my research, run my screens, have a list off opportunities that I want to add to the portfolio and then wait for the price action to tell me that now is time to take a position. Most of the time that requires doing something Warren Buffett has always spoken of, to be brave when others are fearful (discounting too much on the downside) and fearful when others are brave (discounting too much on the upside).

# 04.

## Equities

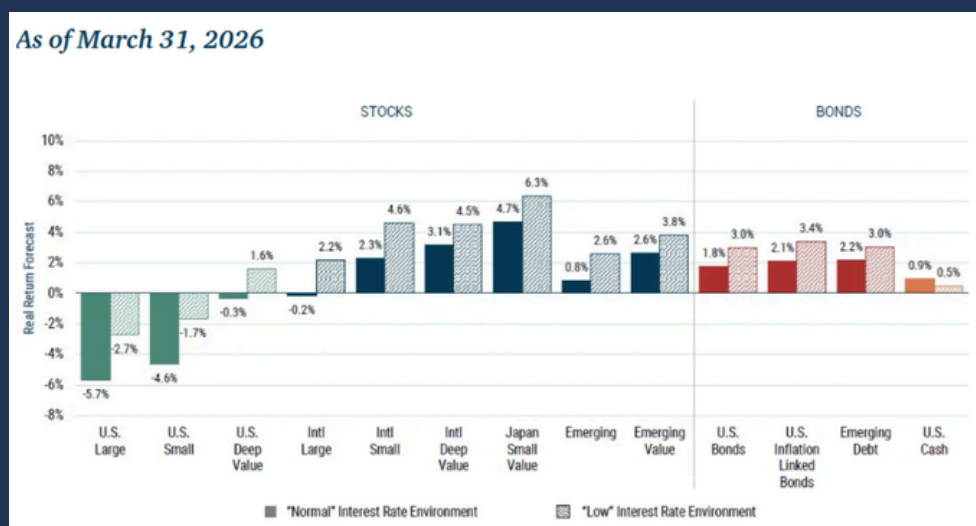
I've said this before, but I want to make one thing clear to you. The US is a large market and we are happy to invest there where we can find Value and enough return to sufficiently compensate our clients for the risk. Certainly there is Value on offer in certain sectors of the US economy, particularly some of the more commodity centric areas, but you won't get any Value or decent margin of safety built into the price, by owning major US Equity Indices because it has very heavy weightings in ridiculously expensive sectors.

Valuations are a poor predictor of returns over the short term, but in the long-run the price you pay today in valuation terms will determine whether you get good or bad returns in the longer term. Don't believe me? Email us, and we'll send you a pdf which proves my point on data going back to the 1800s.

GMO is a famous long term Value oriented asset manager who successfully dodged the Japanese Equity bubble in the late 1980's, the Teck Wreck in the early 2000's and famously warned that US Large Caps were in a bubble not long before the bubble burst in 2008. They use a valuation based tool to guide them called their '7-Year Asset Class Return Forecast'. The model shows an annualised Real Return Forecast on a rolling 7 year basis, updated quarterly.

The real rate of return is the annual percentage profit earned on an investment after adjusting for inflation, reflecting the true increase in purchasing power. It is calculated as the nominal return minus the inflation rate, providing a more accurate measure of performance than returns before accounting for inflation.

### GMO 7-Year Asset Class Return Forecast



Source: GMO

Lighter shaded area shows the return forecast for a Normal Interest Rate Environment. Darker Shaded area shows the return forecast for a Low Interest Rate Environment. "Normal" interest rate environment is consistent with 1.3% equilibrium real cash rate. "Low" interest rate environment is consistent with 0.0% equilibrium real cash rate.

[https://www.gmo.com/europe/research-library/gmo-7-year-asset-class-forecast-1q-2026\\_gmo7yearassetclassforecast/](https://www.gmo.com/europe/research-library/gmo-7-year-asset-class-forecast-1q-2026_gmo7yearassetclassforecast/)

As you can see, there is currently an incredible disparity in forecasts between US Equities and the rest of the world. Paul Tudor Jones, an iconic hedge fund manager explains it well in this X post from Patrick O'Shaughnessy; "Paul Tudor Jones says the US is more dependent on equity prices than ever, and explains what a 35% correction would trigger in the economy:

"We're 252% of stock market cap to GDP. In 1929 we were 65%. In 1987 we got to ~85-90%. In 2000, 170%.

If you think about the periodicity of significant bear markets. Since 1970, we get a mean reversion about every 10 years.

Let's say mean revert to the past 25 or 30-year PE. That would be a 30, 35% decline. Well, 35% on 250% of GDP is 80, 90% of GDP.

10% of our tax revenues are capital gains, they go to zero. So you can see the budget deficit blowing up. You can see the bond market getting smoked. You can see this kind of negative self-reinforcing effect.

In the stock market, we're over-equitized as a country. We have the highest individual equity weightings in the history of the country.

And then the real problem is if you look at private equity in 2007-2008, that was about 7% of institutional portfolios. Now it's about 16% of the institutional portfolios. We're so much more illiquid than we were in 2008.

The problem is that if you buy the S&P at this current valuation, the 10-year forward return is negative when you buy the S&P with a PE of 22. That's what history shows.

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So yes, the S&P is spectacular long-term, if you have a hundred-year view. But that's because that's an average of a hundred years, including times when the S&P 500 PE was 6, 7 and 8, or one third of what it is right now.

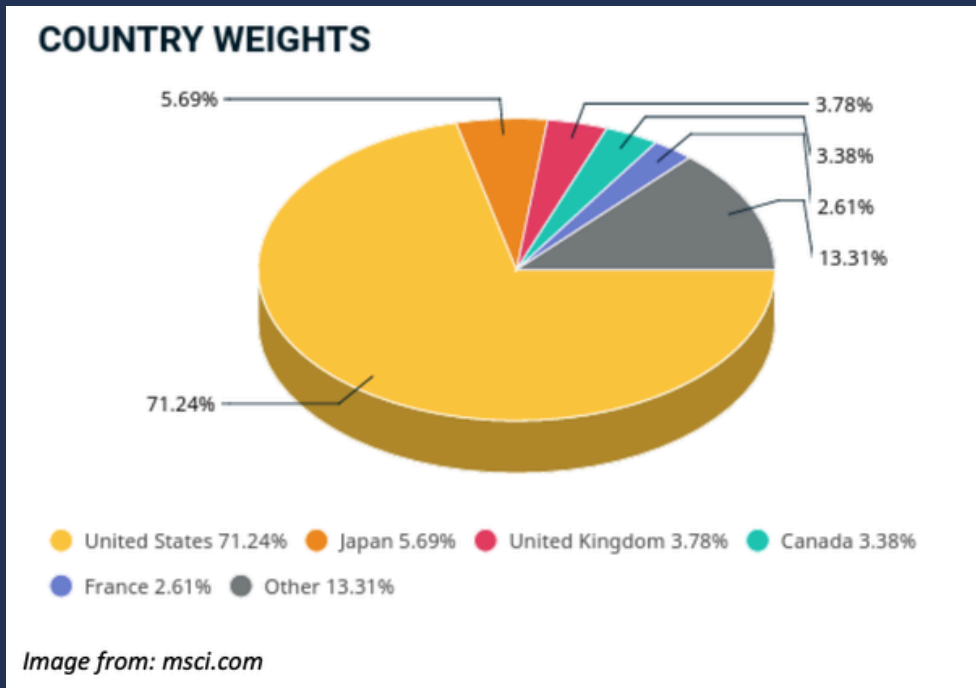
Valuation matters a lot, and the stock market's really high and it's gonna be really hard to make money from here with any kind of long-term view."

Source: <https://x.com/i/status/2049137873559982426>

I'm not trying to be a Doom and Gloomer. This is not the end of the world for the US economy. Japan has survived extraordinarily high deficits for the last 40 years but it suffered decades of very poor returns before the stock market in Japan actually recovered. There are certainly parts of the US stock market that will do well in the coming years, even as the US equity bubble bursts, just as Consumer Staples, Home Builders and Materials Stocks did well during the Tech Wreck when the Nasdaq 100 dropped 82%. The problem is that those stocks make up a very small percentage of the US Equity indices. Energy is a great example. The Energy Sector in the S&P 500 index returned 36% (euro-terms) in Q1 of this year, while the S&P 500 lost – 3.5% (euro-terms) for the same period. But it did not help investors who owned the S&P 500 very much because its weighting is only 3.5% of the S&P 500 index.

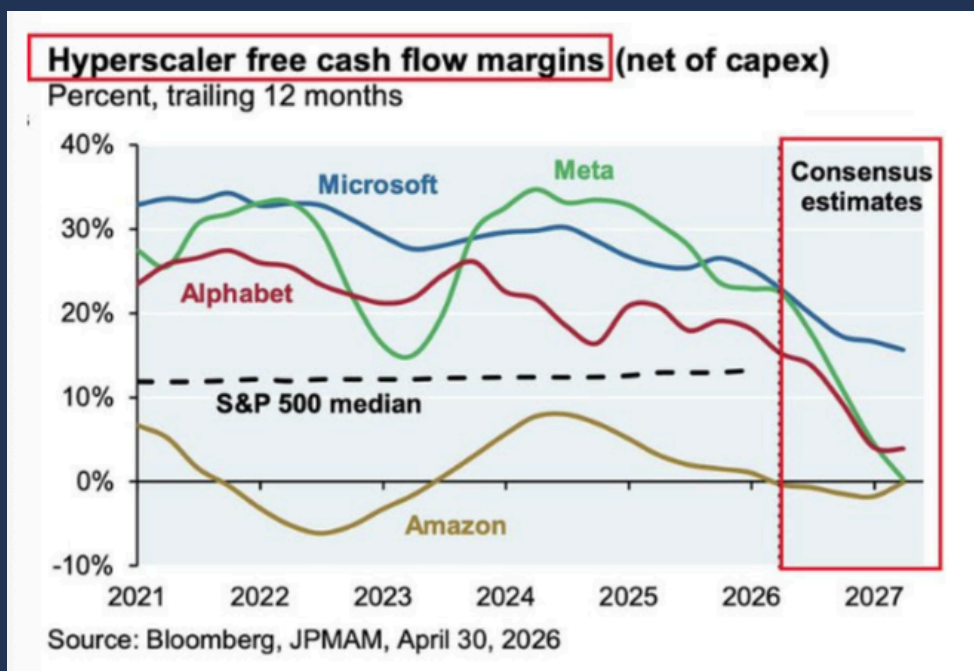
Most people don't know this but in late 1989, just as Japan's Nikkei 225 index was putting in a top which would take 34 years to recover, Japanese Equities represented 45% of the MSCI World index. At the time it was by far the largest component in the index. At the time US Equities only represented 30% of the MSCI World Index. I'm showing my age here, but I remember the period well. It was consensus thinking that Japan was taking over the world. Just 7 months after the top went in, on December 29, 1989, the bubble burst and Japanese Equities were 45% lower and it took another 13 years before Japanese Equities bottomed in 2003.

Current MSCI World Index Country Weightings;



The MSCI World Index is the global benchmark for standard investment products. The US represents 4% of the global population and currently represents just over 25% of global GDP, yet it makes up 71% of the MSCI World Index. If you are sitting in a standard investment product, you have huge exposure to the most expensive market on the planet. You are a sitting duck!

I haven't even gotten into how these AI companies in the US are spending all of their free-cash-flow on capital expenditures because they see an existential threat to their business moats.



IMegacap US Technology companies did over \$1 Trillion in stock buybacks last year! How can these buybacks continue, with free-cash-flows dropping so much? It can't. Not a pretty sight when you have at least \$3 Trillion in expected new IPOs this year;

#### Key 2026 IPO Pipeline Highlights

- SpaceX (\$1.75 Trillion Goal): Reports indicate a confidential filing for a potential June 2026 IPO, with a target valuation of \$1.75 trillion, which would be the largest in history.
- OpenAI (\$1 Trillion+ Potential): Discussions are ongoing for a late 2026 listing that could value the company at \$1 trillion.
- Anthropic (\$300B+ Potential): Preparing for a listing with a valuation in the hundreds of billions, backed by significant investments.
- Other Potential IPOs: Stripe, Databricks, and Revolut are also considered top candidates to boost the 2026 figures.

That's a lot of new supply for the US market to absorb at precisely a time when investors are stuffed to the gills!

In valuation terms, Europe, China, Japan, and EM/Latin America are still ridiculously cheap vs the US and provide significantly more dividend income.

Not to mention that since Trump took office in January 2025, US Equities have underperformed the rest of the world.

Here are two areas we are really excited about over the long term.

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# 05.

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## Latin America


We are very bullish on Latin America equities in the long term and find it very attractive following the trouble in Iran. It has shown very strong resilience, is cheap on a valuation basis, is experiencing political tailwinds across LatAm, has good demographics and sits in a part of the world that has high energy/resource independence and high energy security. Not to mention many of its central banks are experts in dealing with inflation (unlike the FED and ECB). We are impressed with how relatively strong it has been since the war in Iran began. Lastly, owning Latin America Equity ETFs or Funds, gives investors heavier weightings to Commodity and Materials companies. That is essential I think given that Supply-chain disruptions are utterly unprecedented across the board, yet oil and most other commodities are acting calm, as if none of the supply issues will matter. Why? Because most of the real world hasn't seen the affects yet. There is a lag. Most of us are still driving petrol that was refined before the war started. Fertilizer shortages take time to feed through to reality. Most people alive today have never lived through anything like this. You have to go back to to the 1970s and early 1980s to understand what is coming. Analysts fixate on oil's tiny proportion of GDP and the spreadsheet numbers tell them everything is fine. They ignore what actually breaks supply chains. I warned of this in early COVID, thanks to some incredible analysis by Kevin Muir (The Macro Tourist). Inflation ripped over 10%. We are in a period of quiet before inventories finally run low and the real shock slams home. This will drive the next inflation wave and commodity-centric equity exposures like LatAm, should continue to outperform.

# 06. China

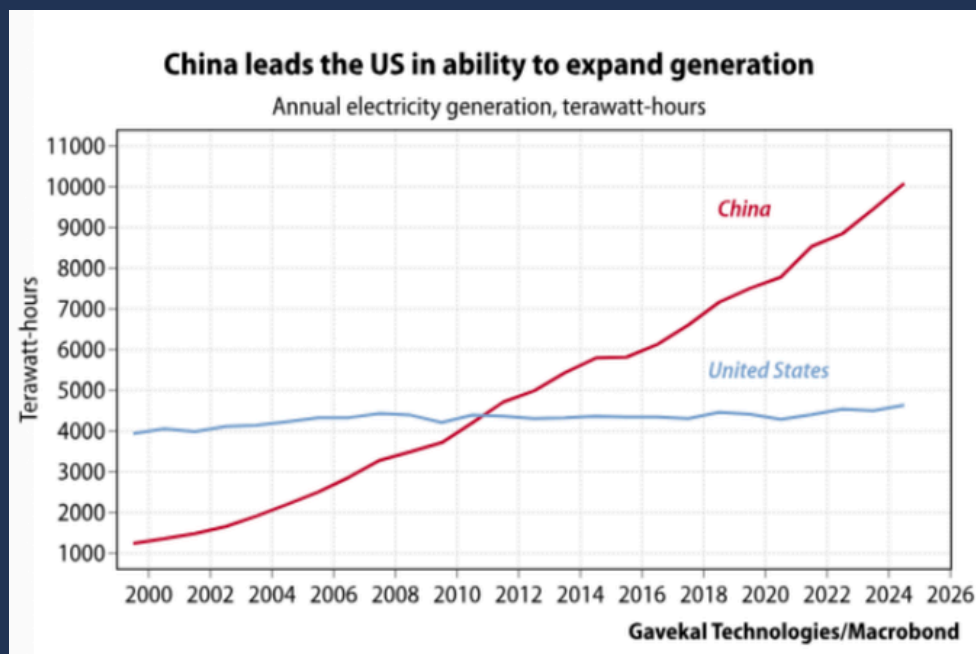
I've said it many times over the last few years, but we think Chinese equities today look a lot like the US did following the 2008 bust. I'm borrowing an image here from an excellent presentation that Louis-Vincent Gave (Gavekal Research) put out, in November last year, which I think sums up the China bull case quite succinctly;

**A parting thought: China today vs USA in 2010**

	USA in 2010	China in 2025
<b>Prevalent belief</b>	Following the mortgage bust, US would experience a 'lost decade' of low returns	Given balance sheet recession, Chinese growth will disappoint
<b>Policy response</b>	With no inflation, Fed could do QE, QE2, QE3. Excess money flows into stocks	With no inflation, policy makers have no constraints. Money flowing into stocks
<b>Currency</b>	Post 2008 crisis, USD was very undervalued	RMB today is crazy undervalued
<b>Cost of capital</b>	Lowest in the world	Lowest in the world
<b>Cost of Labor</b>	Cheapest amongst major economies	China now global robotics & automation leader
<b>Cost of energy</b>	Lowest in the world	Lowest in the world

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You may be thinking, how does China have the lowest cost of energy in the world after the war in Iran broke out? They have the electrical grid, the envy of the world, which is mostly powered by Nuclear;



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To sum it all up, governments and central banks across the world are running very equity friendly policies and outside of the US, valuations are not demanding. We see the potential for a tidal wave of foreign capital to leave the US and move into Europe and Asia, including, China and Japan, over the coming years. We think you could see pretty dramatic differences in returns, much like the period known as the Tech Wreck. Chinese people have the equivalent of \$2 Trillion sitting on deposit earning very little, at precisely the time when the Chinese government are running stimulus on steroids. Valuations and sentiment are very low. We see it as an important component in any diversified equity portfolio with a long term view.

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# 07.

## Bonds

We're obviously focused on European Bonds because that is our native currency. We continue to favour Bonds of ultra-short duration over longer duration Bonds. Again, we believe that we live in a world where governments and central banks cannot allow Bonds to generate returns in excess of inflation. In that world, longer duration Bonds are much more risky, so for the risk, we much prefer assets that can track or even beat these longer term inflationary policies, such as selective Equities and Commodities.

Yields in Europe are very low regardless of whether we are talking about short dated or longer dated Bonds, but clearly when you look at how poorly longer duration Bonds have performed these last few years, in spite of the fact that the ECB has cut interest rates eight times since June of 2024, there is no other choice, at least for now.

Where we have to own Bonds, we will either stay in the shorter end of the interest rate curve until such time as longer duration Bonds begin to act healthier or possibly look to higher quality Euro-denominated corporate Bonds for exposure.

At some point we will see commodities sky-rocket, which will kill demand and begin a possible deflationary wave in the economy, or there will be a resolution in Iran and some months down the road Oil and other critical commodities will come down in price, setting off disinflation. In either of those scenarios long duration Bonds will be investible again. Those are the things we are looking for in order to change the rule-set for our Bond portfolios positioning.

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# 08.

## Commodities

In the Big Picture section I think I covered the reasons Commodities are going to be in short supply going forward so I will try to keep this short. We are getting a lot of commodity exposure into portfolios via commodity-centric Equity regions like Latin America (among others).

# 09.

## Gold

While we see Gold as an important component in multi-asset portfolios because of how it can protect investors during inflationary and deflationary periods, we are running relatively low weightings in comparison to the past. We would expect that Agricultural commodities and other commodities that are needed to feed people or are vital components in terms of mining critical materials, to outperform precious metals in the coming months. Another thing weighing on Gold is the fact that governments in certain parts of the world have lost revenue because of the war in Iran and from time to time they have to sell Gold reserves to pay their bills. Until there is some kind of resolution or re-routing that makes the Strait of Hormuz less impactful, we should continue to see this dynamic at play. Further, Gold tends to be a very seasonal market topping in January/February and bottoming in late summer. It seems to be following that analog well at this time. We are happy to change our mind if something changes.

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# 10.

## Energy

Whether there is a resolution in Iran or not, Demand for fossil fuels was at record global highs before this war even started. We think that is because so little Cap-Ex has been spent by the Oil Majors to find new supplies in the last decade, while at the same time you have a gigantic emerging middle class in certain parts of Asia such as India and Southeast Asia. That's not going to change. Further I mentioned it earlier, but one big consequence of the war is that Energy is no longer just about price. It is also about ensuring access at any price. That should mean that countries around the world will most likely start to stockpile Energy (and other commodities) as a hedge against future supply disruptions. That should be very supportive of Energy prices in the long run, even if in the short term, there is a resolution in Iran driving the price of Energy down.

Lastly, I'd just add that even if we do see the price of Oil come down in the short term on a resolution in Iran, for the world what matters more is the actual refined product that goes into our cars, planes and in the case of Natural Gas – our electricity and fertilizers, etc. Refinery Capacity is now running at significantly lower levels than before the war started. This is because Iran bombed many refineries in Middle Eastern countries who are US allies. It will take 3-5 years for that capacity to be rebuilt, so we would expect that refined product prices will stay elevated, relative to the price of Oil and Natural Gas for many years to come.

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# 11.

## Uranium

We are very bullish in the long term. After a brutal selloff where volume behaviour suggested weak hands were flushed out at lows at the end of Q1, 2025, it has risen nearly 50%. Of course there will be pullbacks along the way in this volatile asset, but we do not see another pullback of great magnitude like the 15 months from early 2024 to 2025 lows, until Uranium is well above those 2024 highs. We see 15-20% downside risk and 100% upside potential over the coming year. We like that kind of risk/reward potential.

The fundamentals for Uranium have never been better. If we look out at official government projects between now and 2040, Utilities globally will need to buy over 200 Billion pounds of the stuff. That is 12 years of deficits! Uranium is ubiquitous but economic Uranium is not! Looking out over the next 5 years there is more than 200 million pounds of deficits. The price will have to move significantly higher in order to make it economic for the Uranium miners to provide the pounds to fill the deficit. There are only two major suppliers on the planet. Kazatomprom and Cameco. These two companies consistently struggle to keep up with demand and demand is accelerating!

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# 12.

## Conclusion

To conclude, we remain confident in the way our portfolios are constructed. Our multi-asset portfolios provide true diversification when you really need it, in an uncertain world.

Please do keep an eye out for our blog where I hope to have the time to be writing shorter, more specific updates relating to the assets in our portfolios. I had intended to do more of that in the early part of this year and then the war kicked off and I had my head on a swivel at the desk.

Please do let us know if you wish to discuss your portfolio at any time.

We appreciate your faith and trust in us.

Kind Regards,

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