BREAKOUT CAPITAL
in strategic partnership with Rockefeller Capital Management

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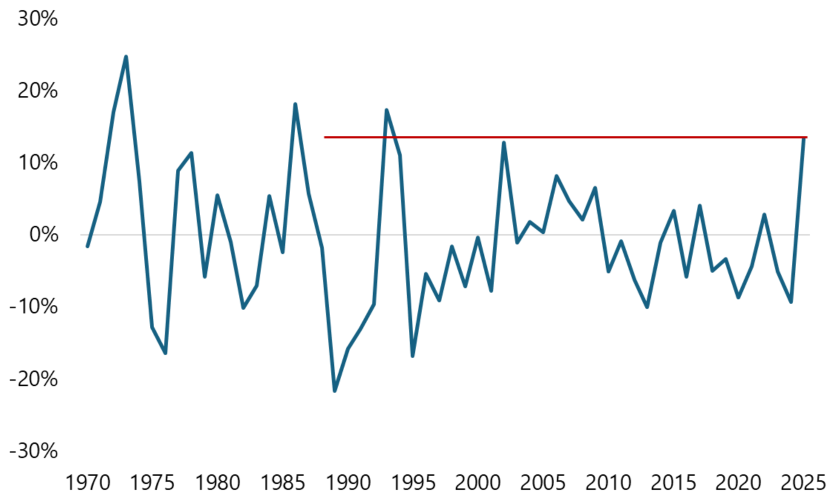
Outlook

After Donald Trump's victory, the overwhelming market consensus was that his plans to cut taxes and regulations would give a new boost to US outperformance. Many even argued that tariffs would boost the US Dollar as well. Our view is that the era of "American exceptionalism" has been artificially boosted by record deficits and debt propping up US growth, and the AI mania. These trends have continued under Trump, but the signs of a shift in global markets suggest investors are just starting to recognize the flaws of this growth model.

International Outperformance: Year to date, international markets have outperformed the US markets by the widest margin in over 30 years; and the fifth highest margin since 1970. This strong run is geographically broad-based, with strong performance in both European and Emerging Markets- and it is supported, in part, by the year-to-date decline of more than 10% in the US dollar.

Chart 1: Performance of non-US equity markets, as compared to the US market



Source: Bloomberg, MSCI, Breakout Capital Calculations. Note: The returns are calculated on a total return basis and measured in USD

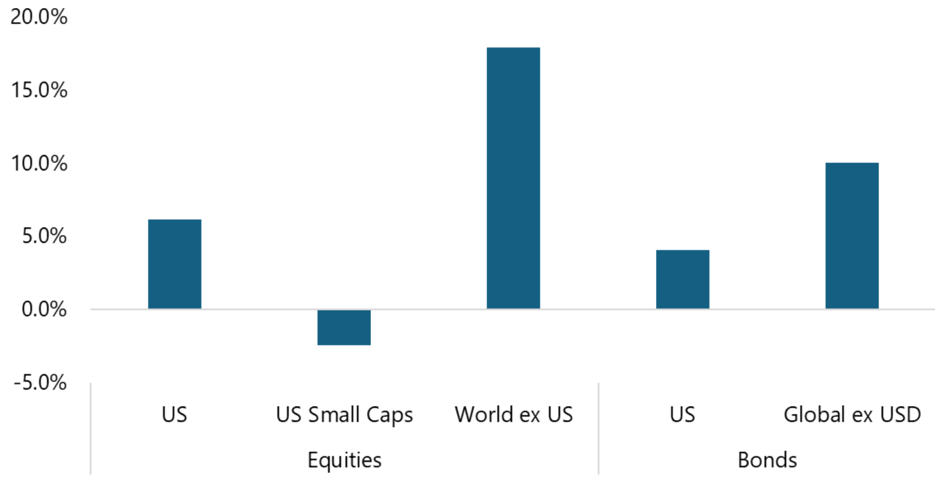
Though underperforming their peers, US assets prices are surprisingly resilient in absolute terms. US equities are up 6% in the first half, despite geopolitical shocks and continued concern that tariffs will lead to stagflation. We suspect this impact has yet to hit because of the massive deficit spending, and the ongoing mania for AI. US returns continue to be dominated by the tech heavy weights, as a US-led basket of AI stocks[1] is breaking out to an all-time high. The trends that preceded Trump

[1] The index captures a basket of global stocks that benefit directly from the advancement of AI stocks, with 94% of the index weight attributable to the US.

continue on his watch: top five tech firms still account for nearly 30% of the US stock market's value, and US small caps continue to underperform.

US bonds are even more surprisingly resilient, despite a deficit that continues to inch up and is expected to reach almost 7% of GDP in 2026. So far this year, US bond yields have in fact declined, and while US bond prices have underperformed their global peers, they are still up by low-single-digits.

Chart 2: Year to date performance for key equity and bond indices



Source: Bloomberg, Haver, MSCI, Breakout Capital Calculations. Note: MSCI Indices are used for equities while the Russell 2000 index is used for US small caps. Bonds are represented by the Bloomberg Aggregate indices

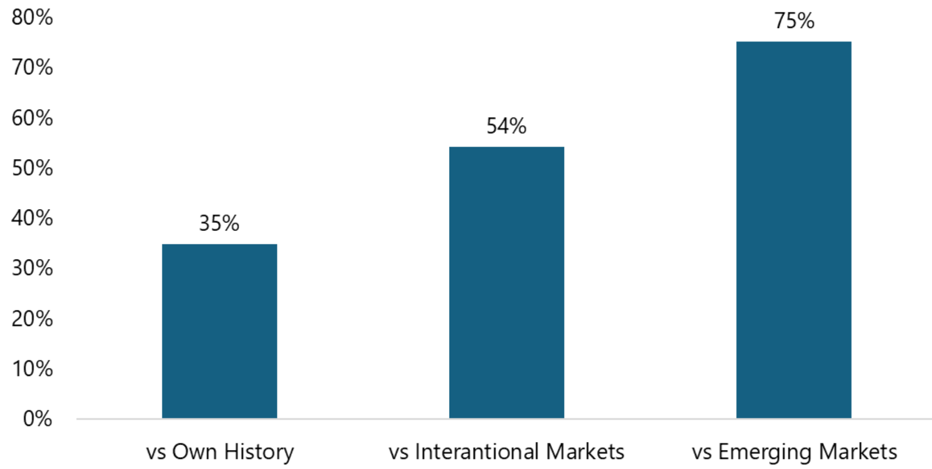
Who's supporting US stocks? Those holding faith include US corporations, which are buying back their own stock at a near record pace of $4 billion a day, and American retail investors. The share of US household financial assets invested in stocks has reached a historical peak of around 45%, breaking the record set during the 2000 dotcom bubble. Meanwhile, despite the signals from an administration that is proposing to raise taxes on foreign investment and remittances, foreign investors are not significantly divesting from U.S. stocks or bonds

Chart 3: Stocks as a percentage of financial assets for households

Source: Federal Reserve Bank of St Louis, Breakout Capital Calculations. Note: The chart captures directly and indirectly held corporate equities as a %age of total financial assets for households and non-profit organizations

US valuations are still exceptionally high: The resilience in US equities means valuations, relative to international markets, are still near historic extremes. The premium investors pay for US stocks is over 50% in international markets, and around 75% for emerging markets. In fact, on a one year forward basis, US equities are trading at 22x earnings, which implies a 3% increase this year, despite all the headwinds and uncertainties.

Chart 4: US Valuation Premium, Relative to a few Benchmarks

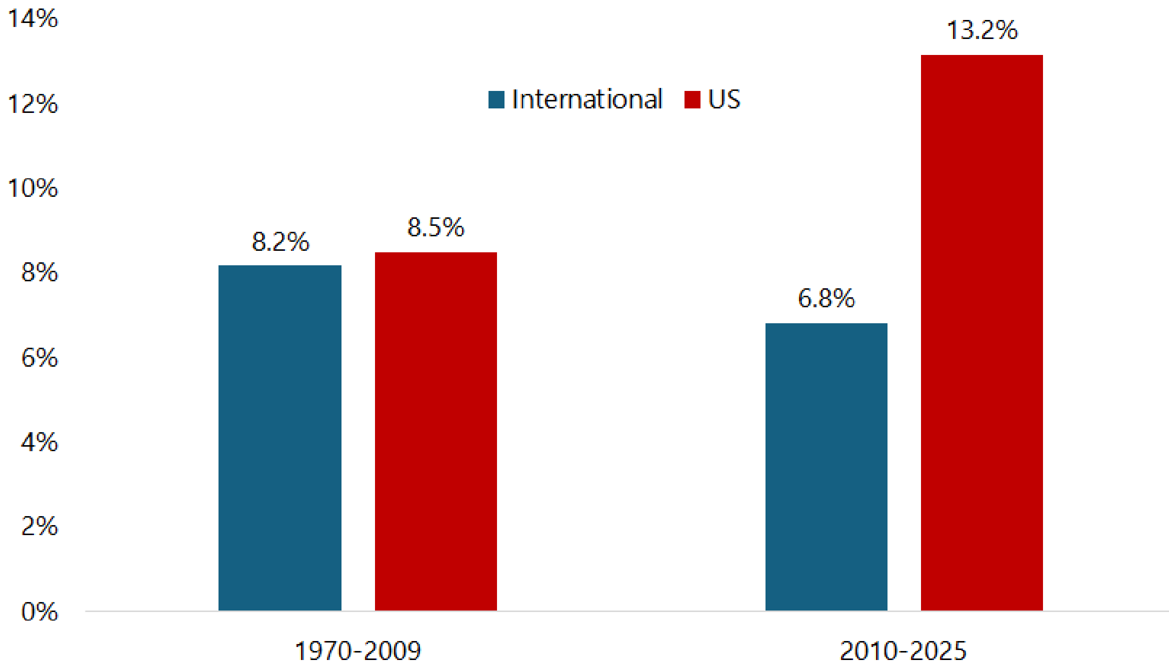


Source: Bloomberg, Haver, MSCI, Breakout Capital Calculations

America has not always been exceptional: While many investors have come to believe that American exceptionalism is a structural constant in global markets, that's not the case. Between 1900 and 2009, international markets outperformed the US more than half the time. In the four decades before 2009, US and international markets delivered essentially the same cumulative returns. It was only after 2009 that US equities started to pull ahead, delivering 13% in annualized return, compared to around 7% for international markets. American exceptionalism is new and unusual, not the normal state of global markets.

The current US market resilience could falter any number of ways, but here are three possible scenarios: investors start to ask harder questions about which of the US tech giants will profit from the billions they are pouring into AI, or they begin to recognize the extent to which the resilience of the US economy rests on unsustainable deficit spending. Or, uncharacteristically, the economic consensus proves right, and Trump tariffs and uncertainties bring lower growth and higher inflation. Our longstanding conviction remains that, one way or another, American exceptionalism will crack, raising opportunities in the rest of the world. [See the next page for Chart 5]

Chart 5: Annualized Equity Performance, measured in total return and USD terms, %



Source: Bloomberg, Haver, MSCI, Breakout Capital Calculations

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The MSCI All Country World Index (the “MSCI ACWI Index”) is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity performance of large- and mid-capitalization companies across both developed and emerging markets. The index includes 23 developed markets and 24 emerging markets.

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