For more information:

Cheryl Galante, Head of Investor Relations and Client Servicing

646.216.8400
cgalante@breakout-capital.com

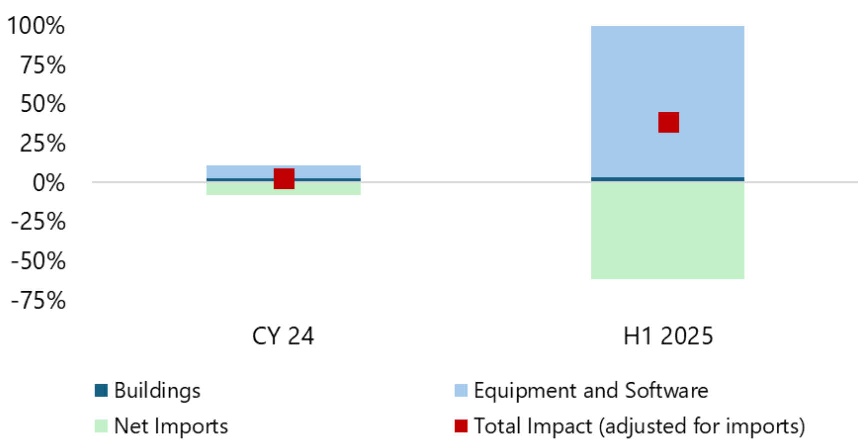
Breakout Capital Quarterly Q3 2025

Outlook

The key driver moving forward is strong investment in AI and related technologies, which has become the primary source of growth in both the US economy and its markets. It's as if America has become one big bet on AI.

Tech Investment Is Driving Growth: The story begins with the hundreds of billions of dollars US firms are spending on AI equipment, software and infrastructure. Even after subtracting the capital spent on imports, these investments account for almost 40 percent of US GDP growth this year, up from a near-zero share last year. And even this share may understate the impact of AI services, as it excludes the many billions flowing into cloud services.

Chart 1: Percent of Real GDP Growth from Tech Investments, Based on Annualized Growth Rates

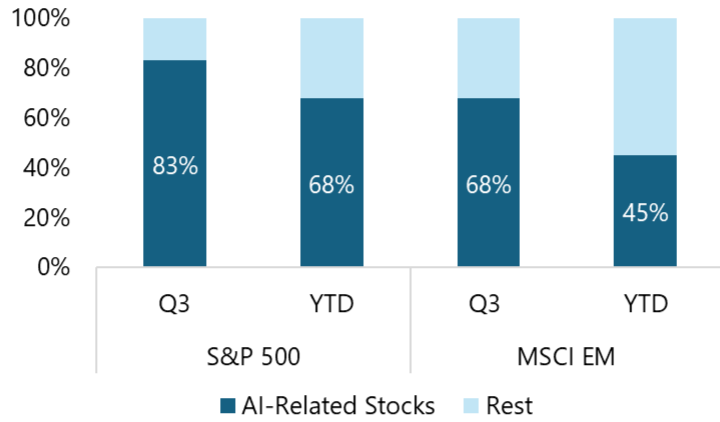


Source: BEA, Census Bureau, JP Morgan.

AI is driving equity market performance as well: While the rage for AI stocks is spreading worldwide, it has contributed almost 70 percent of the gains in the US so far this year, which increased to more than 80 percent in Q3 2025. America is still ground zero for AI mania, which continues to pull in money from the rest of the world. Foreign investors poured a record $290 billion into US equities during the second quarter and now own roughly 30 percent of the total market — the highest level since World War II.

Even though emerging markets provide a more diversified exposure to different macroeconomic themes, the MSCI EM Index in the last few months has been driven by the tech-centric North Asian markets. China, Korea and Taiwan contributed almost 90% of total returns in Q3 2025. Our portfolio remains highly differentiated and diversified, rather than just being dependent on AI.

Chart 2: Return Contribution from AI for US and Emerging Markets



Source: Bloomberg, Breakout Capital Calculations

Wealth effect at the top: The stock market continues to strengthen the US consumer as well. Since the wealthiest 10 per cent of the population own 85 per cent of US stocks, they enjoy the largest wealth effect when the market rises. And in the last year the equity market has generated an additional $6 trillion in household wealth, which translates into consumption growth.

Moody's data shows that the top 10 percent of earners now account for roughly half of all US consumer spending growth – the highest share on record since tracking began more than 35 years ago. Per our calculations, this wealth effect – largely driven by the impact from AI – has contributed between 15 and 20% of US GDP growth this year.

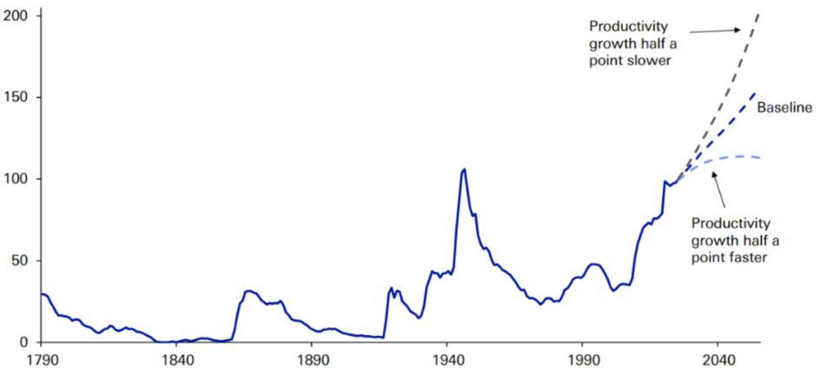
Chart 3: Share of Spending by US Consumers in Top 10% of Income Distribution

Source: Bloomberg, Moodys

The one key that opens all doors: Optimism about AI seems to be erasing any concern about the growing list of challenges facing the US economy. The assumption is that AI will deliver a significant boost to productivity growth, especially for the leader in AI innovation, adoption and infrastructure, which is the United States. And the pickup in productivity will in turn offset the drags from falling immigration, high tariffs, sticky inflation and more. Ultimately, higher productivity growth would even reduce America's growing burden of government debt to GDP—by raising GDP.

[*Chart 4 below illustrates Congressional Budget Office forecasts of how the debt burden continues to explode—unless one assumes an AI-fueled productivity growth acceleration of around half a point*.]

Chart 4: CBO's Forecast for US Federal Public Debt under Alternative Scenarios (Percent of GDP)



Source: CBO, Deutsche Bank; Note: From CBO analysis on May 28, before passage of tax bill

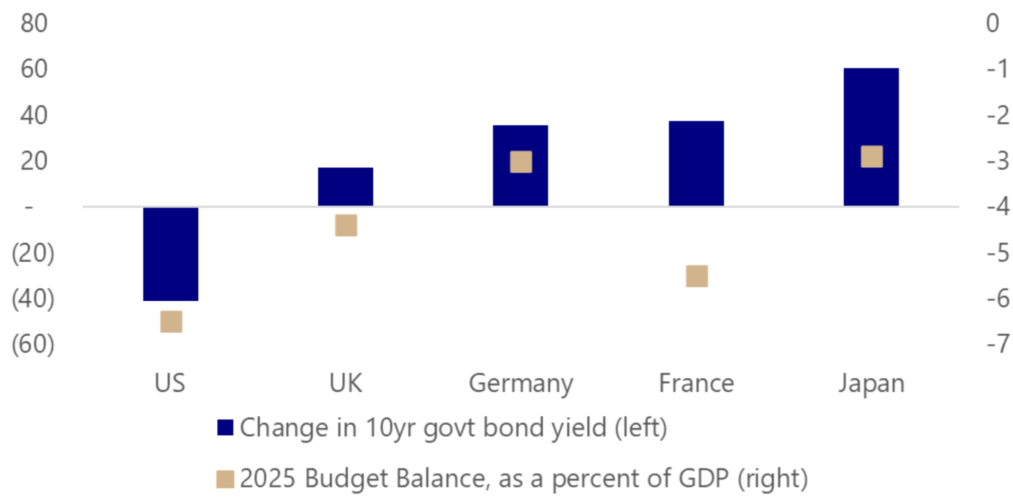
Bond Market Barometer: Faith that America is going to get a unique lift from AI is ultimately reflected in global bond markets. Though the US runs a significantly higher budget deficit than other major developed markets, it has seen a decline in its 10-year government bond yield--by 40 basis points so far this year. Other big developed markets run lower deficits but have been punished with rising long term government bond yields [*see chart 5 below*].

One sign that optimism for America has come to rest mainly on AI can be found just by looking around at every other sector. So far in 2025, returns in all eleven of the major market sectors from banks to materials and industrials have been higher in the rest of the world than in the United States and by a significant margin, averaging around 12 percent.

The obvious question is what happens if AI does not deliver the expected growth miracle in the United States, or does not deliver this boost almost exclusively in the United States? Regime changes in the global markets tend to occur swiftly, and last for a long time.

We have aligned our portfolio, accordingly, favoring economies and stocks which we believe are seeing a steady improvement in their underlying fundamentals and stand to gain from an eventual realignment away from the US. Our selective exposure to AI-themes allows us to benefit from the momentum in this sector, while exposure to other areas provides our portfolio with the durability and resilience necessary for steady, long-term returns. [See the next page for Chart 5]

Chart 5: Change in Government Bond Yields (left, basis points) and 2025 Budget Balance (right)



Source: Bloomberg, Haver, MSCI, Breakout Capital Calculations

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For more information, please contact:

Cheryl Galante, Head of Investor Relations
Main 212 497 5100 | Direct 646 216 8400
cgalante@breakout-capital.com