Client Letter – September 12th, 2025

We Interrupt This Regularly Scheduled Programming…

Longstanding clients of the Hamilton Group may know that this author has been writing these letters for over 20 years, dating back to the days when I used to discuss the topics with my father Glen before crafting them. With "Doc Hamilton" having long since departed for the great wine tasting in the sky, I have for some time chosen the topics, but over all these years and in the course of writing maybe five dozen of these client letters, I have NEVER spilt any proverbial ink discussing gold or international equities – that is about to change.

Both gold and international equities have done quite well this year, especially in US$ terms. While the reasons behind the performance of any given asset class over a period of time are due to any number of factors, including the complex interplay of liquidity in the financial markets and investor attitudes & psychology, I am choosing one to focus on: weakness in the US$ relative to other established currencies since the beginning of the year.[1] Is there one overarching reason for the US$ weakness YTD? Likely not, but the reason most often cited from my perspective is a growing lack of confidence in the US government's finances, with trillion $ federal budget deficits accounting for 5% - 6% of GDP having now become a regular occurrence under Presidents and Congresses of both parties. This is likely of increasing concern to holders of US$ denominated assets around the world, as domestic population demographics suggest that our two biggest budget outlays of Social Security and Medicare/Health (interest on the national debt & Defense spending are #3 and #4) are set to increase dramatically in the coming years. The fact that the fiscal situation for the US Federal Government has taken this shape at a time of 4% unemployment, and in the absence of an economic recession or major overseas conflict in which the US is directly engaged, is only more worrisome to many who (rightly, in my opinion) assume recessions and wars are likely not confined to history…

I am certainly not the first person to highlight the increasingly worrisome condition of the US government's finances. And I do not mean to be alarmist, as US Treasuries and other US$ denominated assets do not exist in isolation, but in relation to all other places individual and sovereign investors around the globe can park their money – point being most other developed countries have similar issues that in many cases look far worse. I simply want to raise the following question: what might overseas holders of US$ denominated assets do when they become skittish about our fiscal condition and seek to diversify away from them to some degree?

Gold

Apparently, one thing they do is to start buying gold. And lots of it…

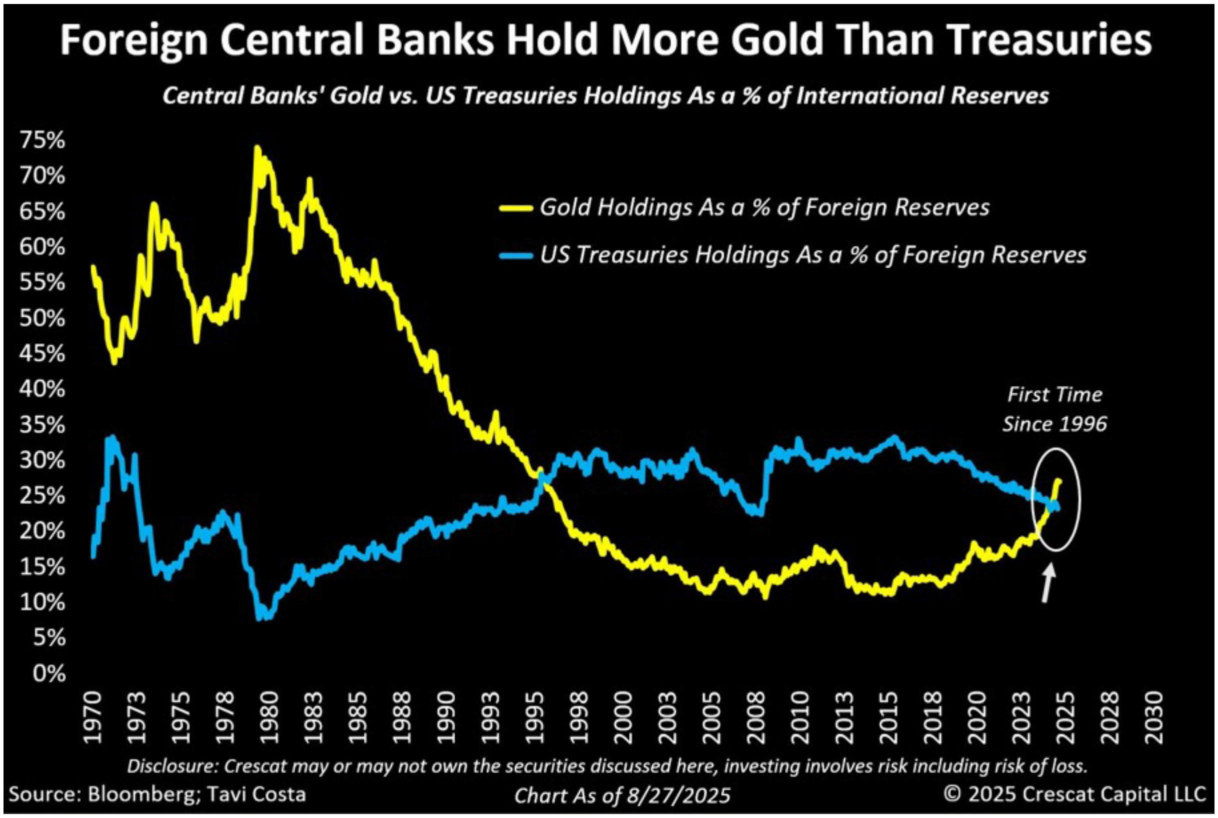
Central banks now hold 36,000 tons of gold, according to a European Central Bank study, having hoovered up huge volumes since the post-pandemic inflation spike and Russia's invasion of Ukraine in 2022. They have increased their holdings by more than 1,000 metric tons in each of the last three years, a record pace and double the average annual purchases in the preceding decade.[2]

---

[1] The US Dollar Index (DXY) has declined 11% since its peak on Jan 13, 2025; the USD is a benchmark that measures the value of the U.S. dollar against a basket of six major foreign currencies: the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc.

[2] https://www.reuters.com/markets/commodities/golds-rise-central-bank-reserves-appears-unstoppable-2025-09-04/

With the price of gold currently above $3,500 an ounce - up an impressive 35% so far this year - central banks' gold holdings are now worth around $4.5 trillion. That's significantly more than their $3.5 trillion stash of Treasuries. Moreover, Treasuries' share of total reserves has been shrinking in recent years. It is now only 23%, by some measures, down from previous peaks of more than 30% in the 2010s, and below gold's current 27% share.



The vast majority of our clients have had exposure to Gold dating back to April 2019 through equity ownership of Newmont Mining (NEM, $76 – 1.3% div), one of the world's largest gold miners. In recent days, I have been taking profits in NEM (stock is currently up 100% YTD and is trading at an all-time high) and shifting those $ over to the iShares Gold Trust ETF (IAU, $69) so as to maintain overall portfolio exposure to gold as an asset, but in a way that is less exposed to the historically volatile mining industry… I want to be clear in emphasizing that I could not *possibly* know what gold prices will do over the next 1,3,5 or 10 years, but based on my "sifting of the tea leaves" and looking at historical price moves dating back to the 1970's, I believe that we will find ourselves well-positioned to have a larger allocation to gold than we have ever had in the past – when we had exposure at all.

International Equities

International equities, whether we had exposure to them through passive index funds, actively managed funds or individual foreign company ADRs, have seldom if ever occupied a prominent place in Hamilton Group portfolios. However, those clients for whom we have placed some percentage of their assets into ALIGN passive portfolios prior to the outset of 2025 have owned the

Vanguard FTSE All-World Ex-US (VEU, $70 – 2.6% yield) for some time, so I have had a "front row seat" from which to observe its performance in recent years. To be frank, prior to this year I did not lament the lack of broader & deeper international equity exposure for our client base, as returns for VEU holders from mid-February 2022 (Russia invaded Ukraine at that time) through 12/31/24 were precisely 0% had you bought & held, in contrast to the 50% return of the S&P 500. The disparity is equally dramatic if you look back over a 10-15 year time frame.[3]

Over the course of the first 8 months of 2025, the S&P 500 returned just over 11%, which feels to me like a rather solid YTD return for domestic Blue Chip equities considering the "Bear Market" (defined as a 20% decline) in US equities that developed in earnest after "Liberation Day" back in April. So, very solid start to the year all things considered for the S&P 500 -- unless you compare that to the return on International Equities: the MSCI EAFE index (which measures the performance of large and mid-cap companies in 21 developed markets, excluding the U.S. and Canada) has doubled up that performance, returning just over 22% YTD.[4]

While valuation is NOT DETERMINATIVE of future performance, when this portfolio manager looked at the S&P 500 trading at 25x earnings at the beginning of the year, while International Equities (VEU) were trading at roughly half that level after a 15 year period of significant relative underperformance, it seemed clear to me that we should at least on the margins be looking to cut Blue Chip US Equity exposure and increase that of international holdings. And so we did and have continued to do so…

I could not possibly know if the recent performance of International Equities will persist through the end of the year, or frankly over a multiyear period going forward. However, I am making an "educated guess" that increasing client allocations to international equities for Hamilton Group clients, whose holdings by mid-2024 had become *very* skewed toward US Large Cap equities, will prove beneficial if not in terms of total return than at least from a diversification standpoint.

In Defense of Boring Stocks: Consumer Staples, Healthcare and "Value"

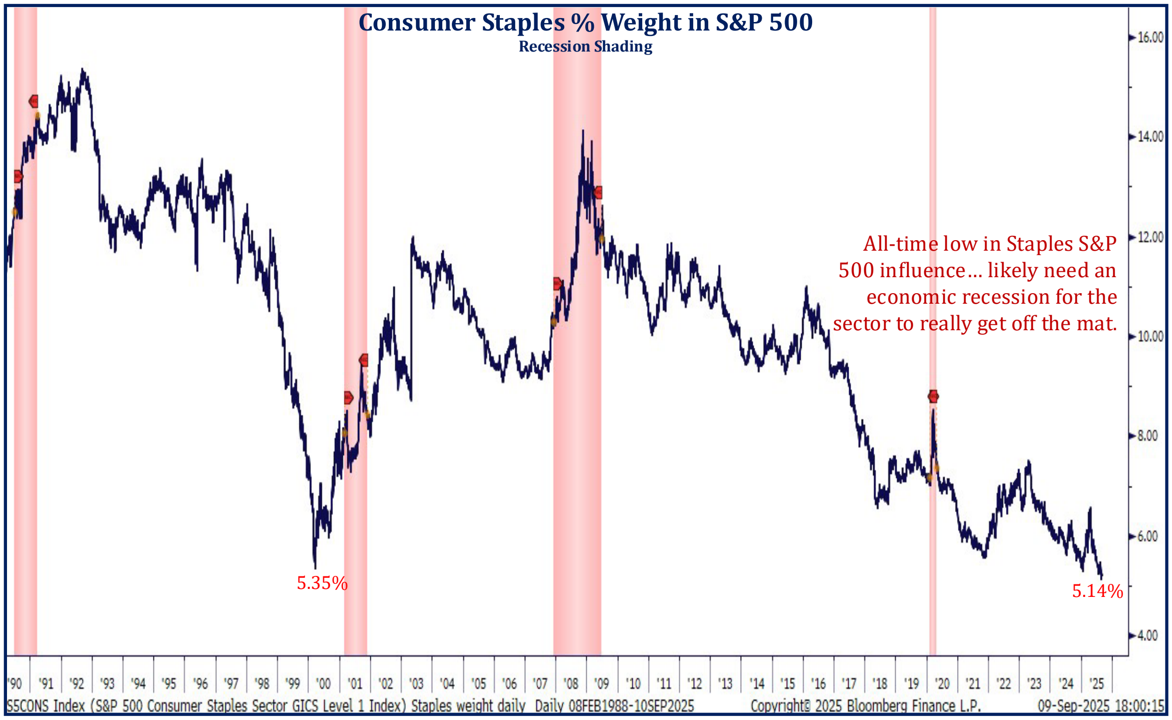
The period we have been going through in stock market historical terms reminds me quite a bit of the very early stages of my career in the mid-to-late 90's, in that equity appreciation in recent years has been largely concentrated in the growth/technology/electricity-power generation space with anything connected to the "AI" theme, much like the late 90s were driven by growth/technology stocks with anything connected to the "Internet" or "E-Commerce" theme. Moreover, if you were skewed towards "Value" vs. "Growth" as a portfolio manager back in the '95 > '00 time frame, and Consumer Staples are very much in the value camp, you most likely underperformed -- until you suddenly didn't, assuming you had stayed the course:

---

[3] From the Feb/Mar 2009 Financial Crisis lows of the Market through Dec 31st, 2024, VEU (international equities proxy) appreciated 225% while the S&P 500 gained a staggering 800% ~ per Morningstar
[4] Return information from Baird PWM Research "Morning Email" ~ 9/8/25

STRATEGAS *9/10/2025*

ALL-TIME LOW FOR STAPLES EXPOSURE



Strategas Technical & Macro Research *Proprietary Information – Please Do Not Redistribute* 1

I am getting pretty deep into the word count here so I do not want to spend a lot of time on this subject, but I just wanted to highlight the above chart for anyone who wonders why we still have *any exposure at all* to "Value" stocks in the healthcare, consumer staples or telecom spaces. This portfolio manager is well aware that this cohort has contributed "next to nothing" beneficial to overall portfolio performance relative to the annualized returns of the S&P 500 over the prior 5,10- & 15-year periods. However, if history is any indication, and the '24-'26 time frame ends up looking anything like '99 – '01, this would be an extremely inopportune moment to give up on them. While I should point out that the percentage of assets in our client portfolios that are allocated to consumer staples and other value stocks is rather small compared to the companies amongst the Top 10-20 in market capitalization in the S&P 500, I have no desire at this moment to take that undeniably small allocation to zero.

Hope you all had a nice summer, and we look forward to catching up with many of you between now and year end. We have some news to share about recent developments in the Hamilton Group (all neutral to positive, don't worry) but we thought we might break that out into a separate, shorter communication so as not to bury the information at the end of this lengthy piece. Look for it sometime in October…

Adam Hamilton, on behalf of the Hamilton Group