

GAM Star Fund Plc - GAM Star Global Rates

Marketing material for professional / institutional investors only

Market backdrop

US economic data releases remained disrupted throughout December following the prolonged government shutdown which concluded in mid-November. Key data included the November jobs report which showed that the unemployment rate rose to 4.6%, the highest since 2021. Although private sector payroll growth has been steady in recent months, the breadth of hiring has narrowed, with gains concentrated in healthcare and social assistance. The rise in unemployment has been primarily attributed to re-entrants to the labour market and a jump in workers placed on temporary layoff, rather than permanent job losses. Inflation data showed the headline Consumer Price Index (CPI) slowing to 2.7% in November from 3.0% in September, with October data omitted because of the shutdown. Core CPI cooled to 2.6% year-on-year (yoy), materially below expectations. However, the continued absence of disinflation in core services prices since the spring suggests that the signal from the November inflation data may be unreliable.

Among the major central banks, the Federal Reserve (Fed) and Bank of England both lowered policy rates by 25 basis points (bps). The Bank of Japan raised its policy rate by 25 bps to 75 bps. The Reserve Bank of Australia, the Swiss National Bank, the Bank of Canada, Sweden's Riksbank, the Norges Bank, the European Central Bank and Brazil's COPOM all held rates unchanged. Switzerland, Canada and Brazil are the only economies where inflation is within the respective target ranges. In terms of real rates, Japan and Sweden occupy opposite ends of the scale among the G10 economies and Brazil remains an outlier, with real rates at +10.5%.

For the Fed, the Summary of Economic Projections emphasised policymakers' perception of increased downside risks to the labour market, even as inflation remains above target. The announcement to resume Reserve Management Purchases was presented as a technical tool aimed at mitigating market disruption around tax payment dates. In the UK, the Monetary Policy Committee's (MPC) decision to lower the Bank Rate was characterised as finely balanced, with the four dissenting voters citing ongoing concerns over elevated wage expectations and persistent

services inflation. The five MPC members in favour of lowering rates pointed to falling headline inflation, downside risks to activity and growing labour market slack. On the latter, labour market and activity data have been weaker than the Bank projected in November, with the Labour Force Survey (LFS) unemployment rate rising to 5.1% in the three months to October, 0.2 percentage points above the Bank's previous forecast. It remains to be seen whether weakness in the activity data reflects heightened uncertainty prior to the Chancellor's Autumn Statement or indicates a more protracted slowdown.

On a total return basis, the best performing G10 currency was the Swedish krona (+2.73%), followed by the Australian dollar (+2.19%) and the Canadian dollar (+2.12%). The Japanese yen (-0.27%), the US dollar (+0.34%) and the Norwegian krone (NOK, +0.52%) were the worst performers. 10-yr yields rose by 11 bps and 6 bps in Germany and the US respectively and were flat in the UK over the course of the month.

Performance

The USD (Institutional) class was down -1.26% in December, with losses in both fixed income and currencies. Over 2025 as a whole, the USD (Institutional) class rose by 15.72%.

December performance detractors

- Long US and UK breakeven inflation
- Short Sweden fixed income versus Europe
- Long front-end rates in Brazil
- Long NOK versus GBP and Swedish krona (SEK)

December performance contributors

- Front-end money market steepeners in the US and UK
- Short Canada fixed income versus Europe, UK, Australia
- Long EUR versus USD and GBP

Positioning

During December we extended the maturity of both the short Sweden fixed income versus Europe theme and the long Brazilian rates theme. We also took partial profit on curve steepeners in the UK and on the front-end of the US. In fixed income relative value, we initiated long positions in Europe versus Canada and in Australia versus the US



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The GAM Star Global Rates strategy is co-managed on a delegated basis by the investment team led by Adrian Owens at Investcorp-Tages.

and Canada. We took profit on a long UK versus Canada position. In currency, we took profit on a long New Zealand dollar versus Japanese yen position and closed a short sterling versus Norwegian krone position.

Outlook

The US Administration's One Big Beautiful Bill Act, the UK Chancellor's Autumn Statement, Japan's latest stimulus plans and France's ongoing fiscal paralysis were all examples of policymakers' unwillingness to implement substantive fiscal adjustment over the course of 2025. According to the International Monetary Fund (IMF), approximately a third of countries, accounting for 80% of global Gross Domestic Product (GDP), have public debt that is both higher than it was before the pandemic and rising at a faster pace. The incoherent mix of fiscal profligacy, expansionary monetary policy and, in the case of the Fed, renewed central bank purchases, at a time when, with few notable exceptions, inflation remains above target, is being met with growing concerns of fiscal dominance. The performance of precious metals and the sharp rise in long-term yields underscore rising fiscal and inflation concerns amid growing mistrust in policymaking and fears of debt monetisation.

A negative loop between monetary and fiscal policy is being reinforced as governments are incentivised to reduce the average maturity of sovereign issuance, at the expense of increasing the sensitivity between debt-servicing costs and central bank target rates.

The assumptions that monetary easing will remain non-inflationary, that the worst of the tariff shock has passed, that Artificial Intelligence (AI) capital expenditure (capex), revenues and productivity will reconcile, that a shrinking tax base can sustain a growing dependency ratio and that policymakers retain the credibility and capability to respond to economic shocks seem ever more fragile. As the Global Rates strategy enters its 23rd year, this dispersion in the outlook for growth and inflation, combined with the policy challenges facing the major economies, underpins both the opportunity set and the objective of continuing to deliver uncorrelated returns.

Approximately 65% of risk is in rates, 20% in inflation and 15% in currency.

For more information, please visit www.gam.com

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