AozoraStep

For professional clients

Q2 2025: Jerome Powell – Enemy of the State

Quarterly Performance	Turnaround Portfolio	FTSE All Share TR
Q1 17	0%	0%
Q2 17	-8%	1%
Q3 17	-5%	2%
Q4 17	-1%	5%
Q1 18	9%	-7%
Q2 18	19%	9%
Q3 18	-16%	-1%
Q4 18	-30%	-10%
Q1 19	45%	9%
Q2 19	39%	3%
Q3 19	0%	1%
Q4 19	8%	4%
Q1 20	-43%	-25%
Q2 20	42%	10%
Q3 20	-3%	-3%
Q4 20	76%	13%
Q1 21	32%	5%
Q2 21	-3%	6%
Q3 21	5%	2%
Q4 21	1%	4%
Q1 22	37%	1%
Q2 22	-3%	-6%
Q3 22	17%	-3%
Q4 22	20%	9%
Q1 23	0%	3%
Q2 23	-13%	0%
Q3 23	40%	2%
Q4 23	3%	3%
Q1 24	1%	4%
Q2 24	5%	4%
Q3 24	6%	2%
Q4 24	-14%	0%
Q1 25	-7%	5%
Q2 25	6%	4%

Annual Performance	Turnaround Portfolio	FTSE All Share TR
2017	-9%	9%
2018	-31%	-9%
2019	113%	19%
2020	52%	-10%
2021	37%	18%
2022	99%	0%
2023	26%	8%
2024	-1%	10%
H1 2025	-2%	9%

Overall Performance	Turnaround Portfolio	FTSE All Share TR
CAGR	**23.6%**	**5.8%**
2017-H1 25 Return	**507%**	**62%**

Past performance is not a guide to future performance

21 Knightsbridge, London SW1X 7LY
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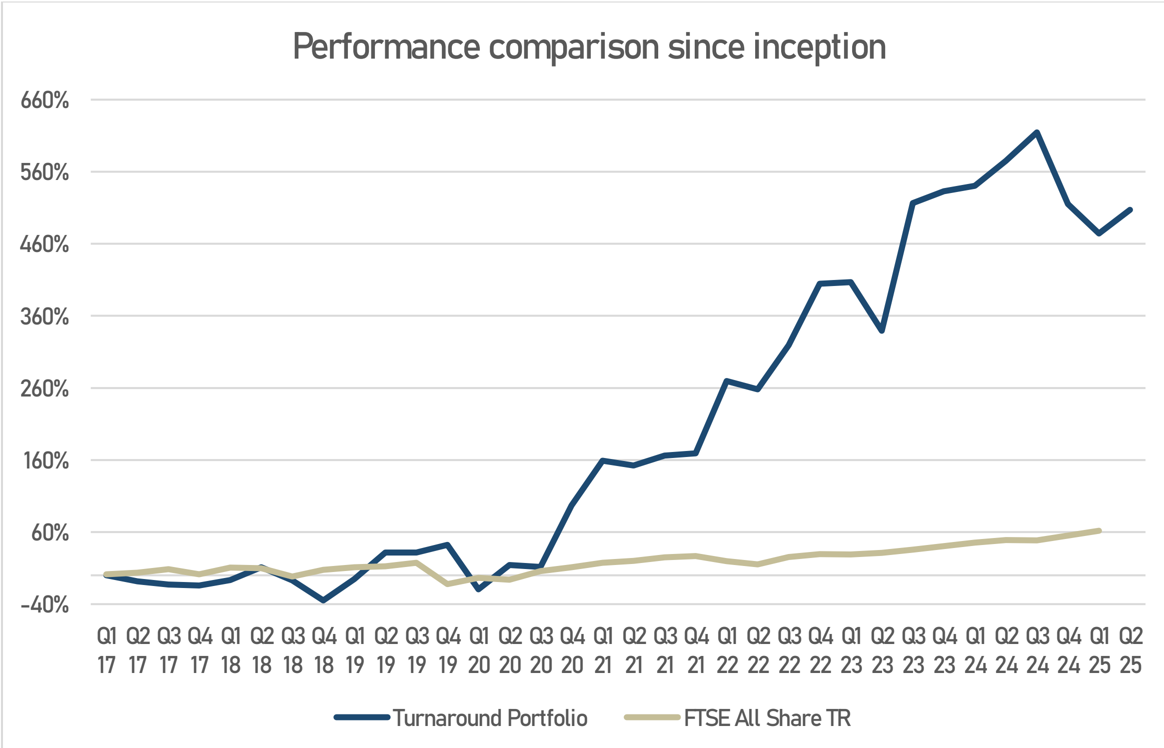

Past performance is not a guide to future performance

8th July 2025

Dear Reader,

This quarter was as volatile as a quarter can be. However, the combination of tariffs and war in the Middle East in the end did not rattle the markets for too long. Despite having positioned the portfolio accordingly, returns were ultimately not as high as anticipated due to the fast-moving pace of events. In addition, several dividend ex-dates in June dragged down performance a bit in Q2, and I expect to receive around 2.8% of equivalent performance in dividends paid in July.

As a brief update on the business, I'm now regulated with the FCA via Vittoria & Partners (here) and can serve clients via advisory and managed accounts throughout the most important regions. I also consider setting up a fund to service a broader investor base and make it more tax efficient, but I'd need a firm commitment for that. Recent events, such as Global Alts NY, have been very successful in making new connections, and I'm in touch with a few allocators to get onboarded on their platform. This is all incredibly time-consuming. When comparing capital raising with dating (my wife gave me this useful advice), I always

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think that "love at first sight" or "having a crush on each other" is the most important ingredient for any successful date. It's probably very hard to screw up a date once this initial "crush" is there. So, I continue to work on the pitch (latest deck here), and might even improve my website (a friend of mine, who has recently re-done his, might help me with this, here), but ultimately I need to prove that my performance can go back to >20% per annum since the underperformance in Q4 24 and Q1 25. I'm also planning to be at Global Alts Asia in Singapore in November and my summer intern, Jay Choe, joined recently, who is helping me with analyses and cap raising efforts.

As usual, first I'll address a few macro topics (a lot more charts than usual covering FICC, but excluding tariffs as I anticipate 10-20% global tariffs and up to 60% tariffs on China, as per Trump's election pledge[1]), before going into some more details on the performance & portfolio.

Why the U.S. needs lower interest rates

Historically, there were two highly inflationary cycles over the last 100 years: The 1940s and 1970s. Each of these two inflationary periods had three cycles, in which inflation came down over a period of 2 years, +/- 6 months, before climbing again for the 2nd and 3rd time. Laying the current inflation cycle on top of the prior two cycles suggests that we are 6 months away from another inflationary spike. However, the Fed's approach to keep rates stable despite falling inflation (>2% real rates) resembles that of the 1980s or 1990s, not the 1970s. The problem is that other central banks across the world have lowered their rates this year by 50-100bps[2], whilst the USD devalued, nonetheless. This shows that keeping rates stable has not given the US any benefit and if inflation were to go up again, the Fed would need to hike interest rates to avoid further USD depreciation. At the same time, government debt/GDP is at 120% compared to 30% in the 1970s (4x!). This means that the interest expense on government debt/GDP at 3.7% compared to the 4.9% in the 1980s is in fact 4x higher than that of the 1980s (~15% equivalent), whilst government debt/GDP doubled from 30% in the 1970s to 60% in the 1980s. In other words, what Volcker did in the 1980s is not possible to repeat today, as it would bankrupt the country. Essentially, this makes Jerome Powell the Enemy of the State in a bi-partisan way. In any case, for the 2nd spike in inflation, there would need to be a jump in oil and gas prices though…

[1] https://www.aozorastep.com/The%20tax%20situation%20in%20the%20UK%20&%20Harris%20vs%20Trump.pdf
[2] https://www.aozorastep.com/Why%20the%20US%20could%20see%20disinflation.pdf

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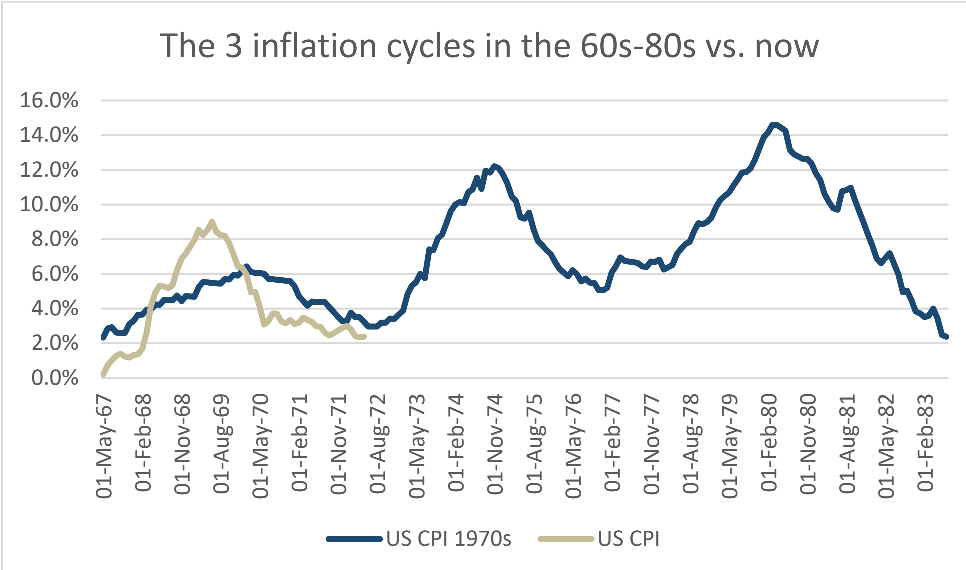
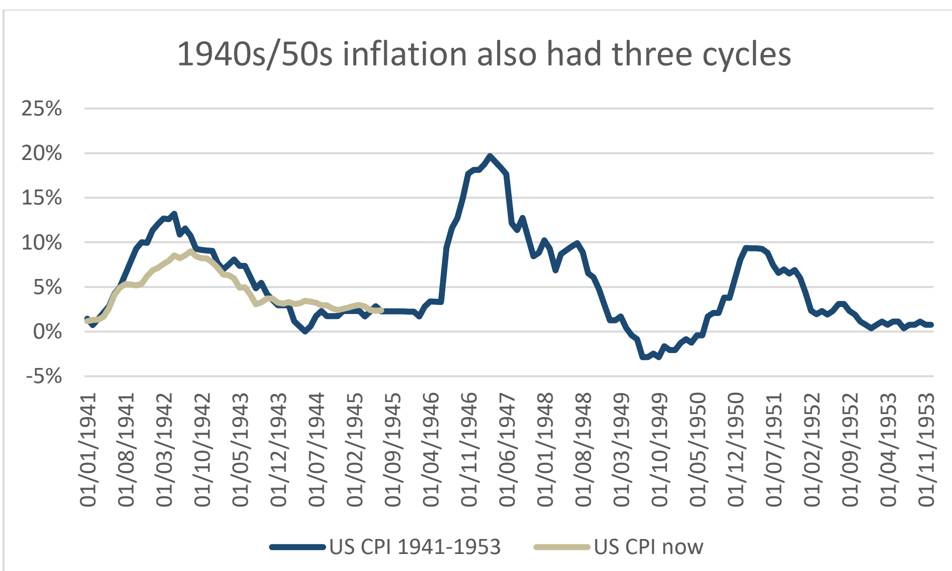


Source: FRED St. Louis



Source: New Hyde Park Alternative Funds, FRED St. Louis

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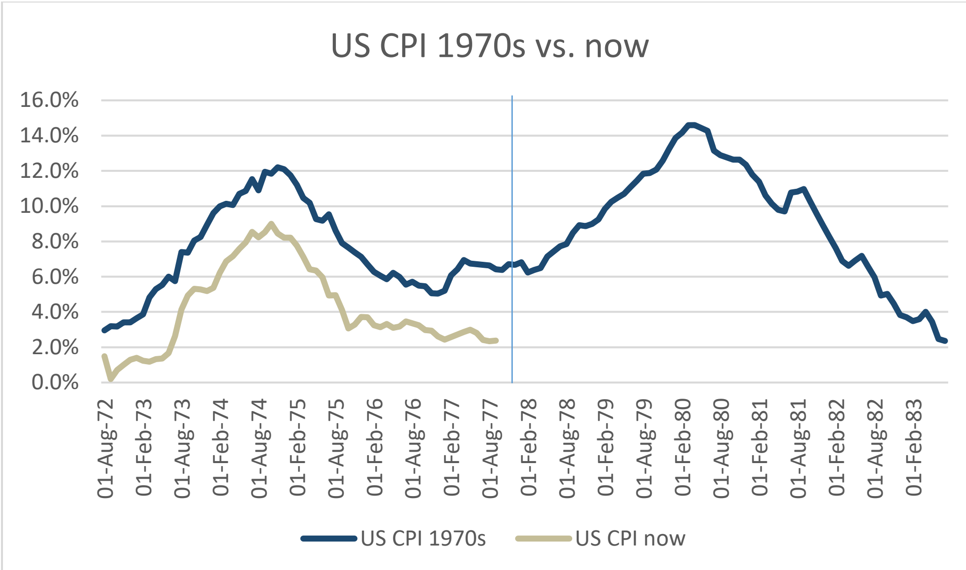
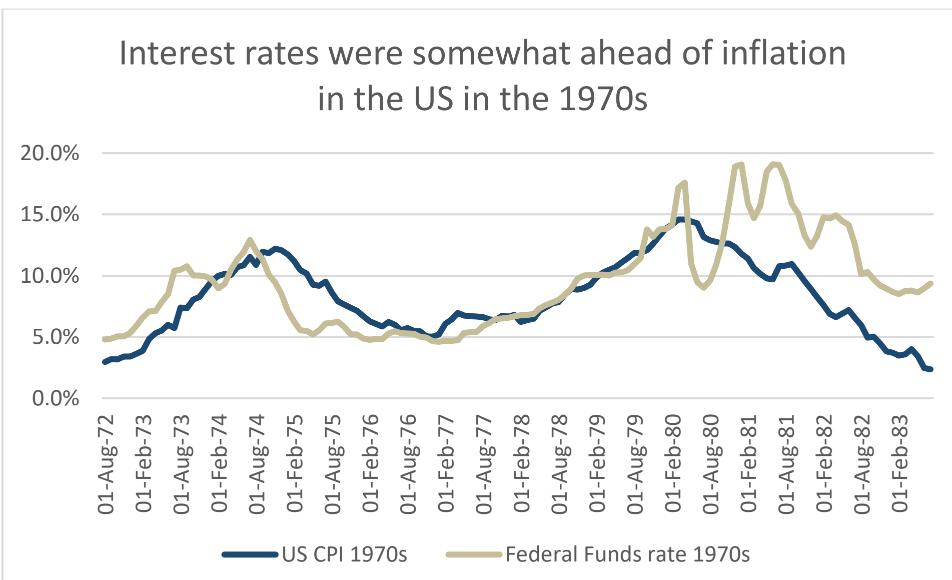


Source: FRED St. Louis (pile is current date, i.e. July)



Source: FRED St. Louis

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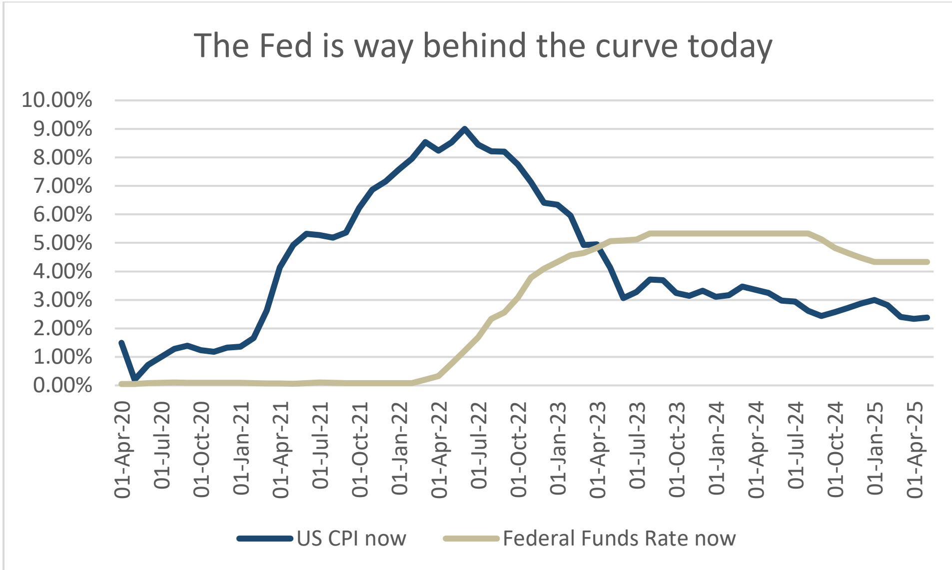
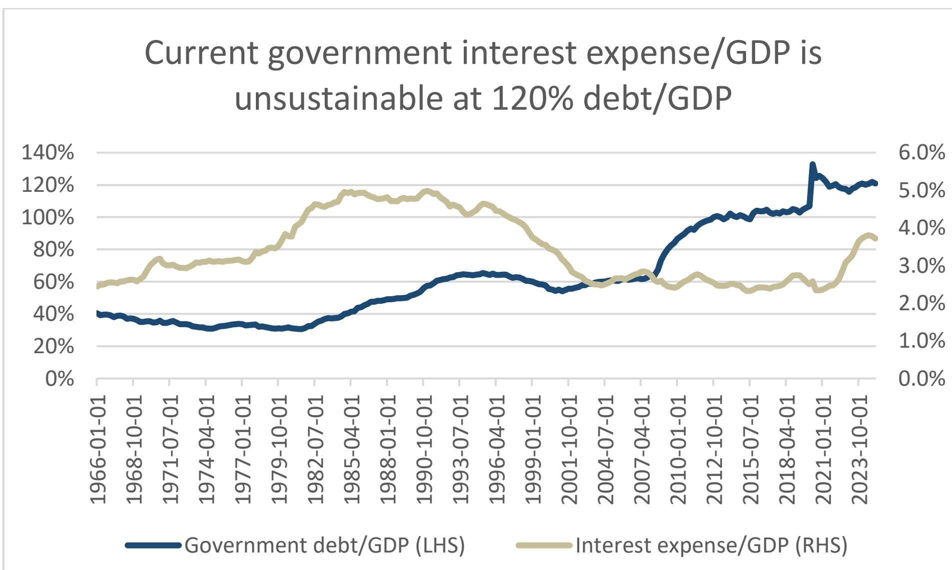


Source: FRED St. Louis



Source: FRED St. Louis

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Interest rates vs. CPI

Country	Interest Rate (White House)	Inflation (CPI)
Switzerland	0.25%	-0.10%
Cambodia	0.45%	3.70%
Japan	0.50%	3.50%
Denmark	1.75%	1.60%
Seychelles	1.75%	0.40%
Thailand	1.75%	-0.57%
Botswana	1.90%	1.90%
Barbados	2.00%	0.30%
Eurozone	2.00%	2.00%
Taiwan	2.00%	1.55%
Bulgaria	2.07%	3.70%
Cuba	2.25%	16.43%
Sweden	2.25%	0.20%
Morocco	2.50%	0.40%
Cabo Verde	2.50%	2.30%
South Korea	2.50%	2.20%
Algeria	2.75%	4.57%
Canada	2.75%	1.70%
Albania	2.75%	4.57%
Libya	3.00%	1.50%
Malaysia	3.00%	1.20%
China	3.10%	-0.10%
New Zealand	3.25%	2.50%
Trinidad and Tobago	3.50%	1.50%
Czechia	3.50%	2.40%
Bolivia	3.82%	18.46%
Australia	3.85%	2.40%
Costa Rica	4.00%	-0.12%
The Bahamas	4.00%	-0.80%
Kuwait	4.00%	2.25%
Papua New Guinea	4.00%	5.28%
Bosnia and Herzegovina	4.14%	3.70%
United Kingdom	4.25%	3.40%
United Arab Emirates	4.40%	2.37%
United States of America	**4.50%**	**2.40%**
Cameroon	4.50%	5.30%
Equatorial Guinea	4.50%	4.00%
Gabon	4.50%	0.70%
Guatemala	4.50%	1.70%
Israel	4.50%	3.10%
Mauritius	4.50%	4.20%
Norway	4.50%	3.00%
Republic of the Congo	4.50%	10.46%
Vietnam	4.50%	3.24%

Source: White House, Tradingeconomics.com

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How the U.S. Dollar could devalue further – or not!

As Trump is actively trying to force the Fed to lower rates, I expect that pressure on the Fed continues to climb in July due to the upcoming debt maturities. BoFA's Mark Cabana is expecting $1trn in additional UST supply this year, with $700bn new supply in August and September alone[3]. This could put further downside pressure on the USD. At the same time, Trump already emphasized that they would issue more in 1-year bills and then refinance them once Powell is out in May 2026[4]. Interestingly, once Jay Powell signaled openness to a July interest rate cut, the USD started appreciating[5], which shows me that the market thinks Powell made a mistake by leaving rates high and hence lower rates could lead the USD to appreciate due to a stronger US economy (unless Powell resigns, which could cause some short-term panic). There are not many periods when the USD depreciated consistently over multiple years. Aside from the Plaza Accord, only between 2002-2006 the USD consistently devalued after the Fed cut rates from 6.5% in 2000 to 1% in 2004, whilst other central banks kept rates much higher[6] (not the case today). When it comes to currency valuation, I find technicals quite useful, as different to the valuation of a company, there is not the same real intrinsic value behind. This is why I believe that the USD could weaken more in July, maybe by 5-7%, but given that many other countries face the same high government debt/GDP levels and that Powell might cut rates in July (as per above), we won't face a paradigm shift in the USD – at least for now.

[3] https://www.reuters.com/business/us-bond-market-braces-surge-treasury-supply-second-half-2025-06-24/
[4] https://finance.yahoo.com/news/trumps-bills-over-bonds-strategy-023210151.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAKLMS2ksTZDHaUIsCYgNDKFcSgL77yCfR6Y3LTg05X_XPdayXBuOcyfoVSO-vYWbOzc-Zt8RuCYFzg_HgV82ZbLtiwOkFFzQGUJtae9fEEEhAP3MmyWgHKNEjNiOwxPYqvcirNyVvWwXVVRYbJ47kiAikNknz4Rn44eS95_ZA-6X
[5] https://www.ft.com/content/153b7630-ac73-49d0-8aaf-330b1ef49421
[6] As per charts below via investing.com

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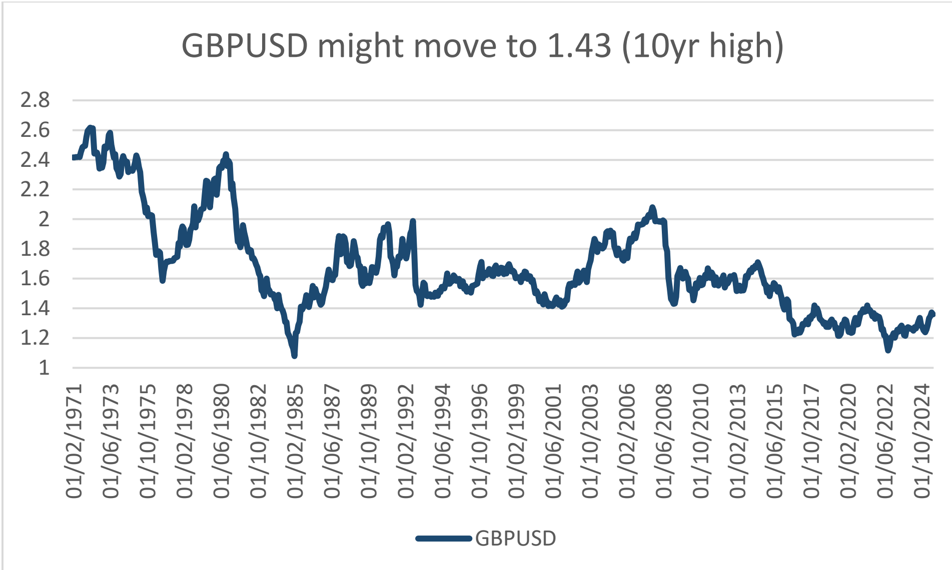
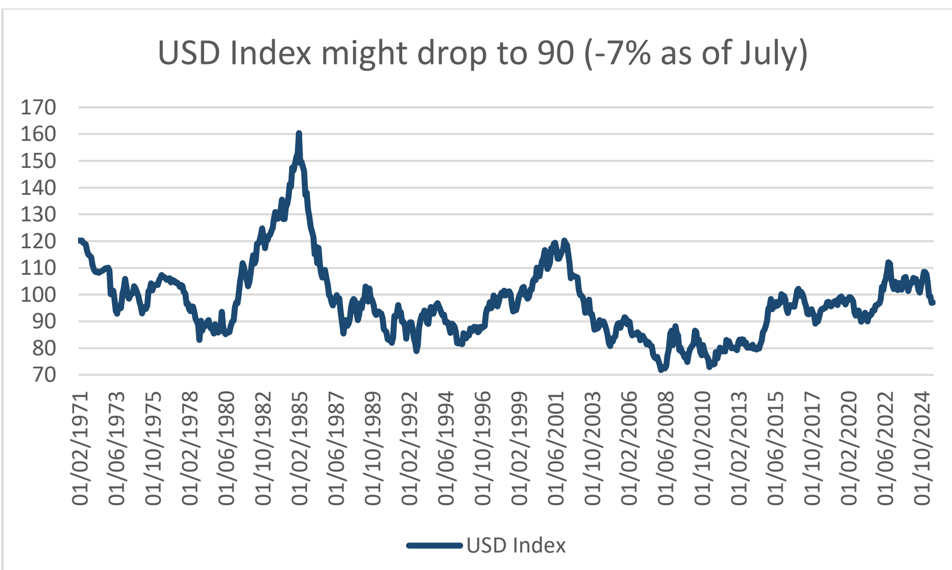


Source: Investing.com



Source: Investing.com

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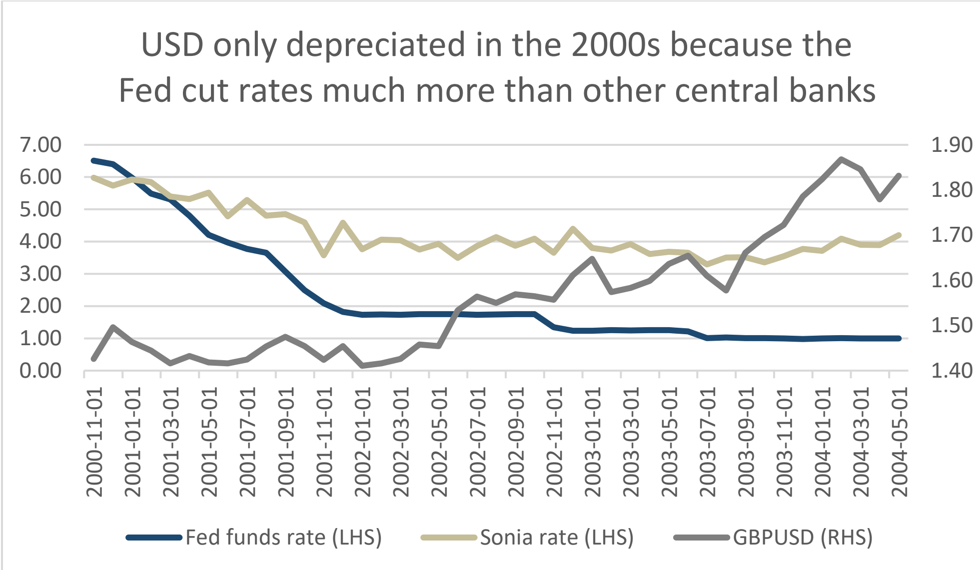


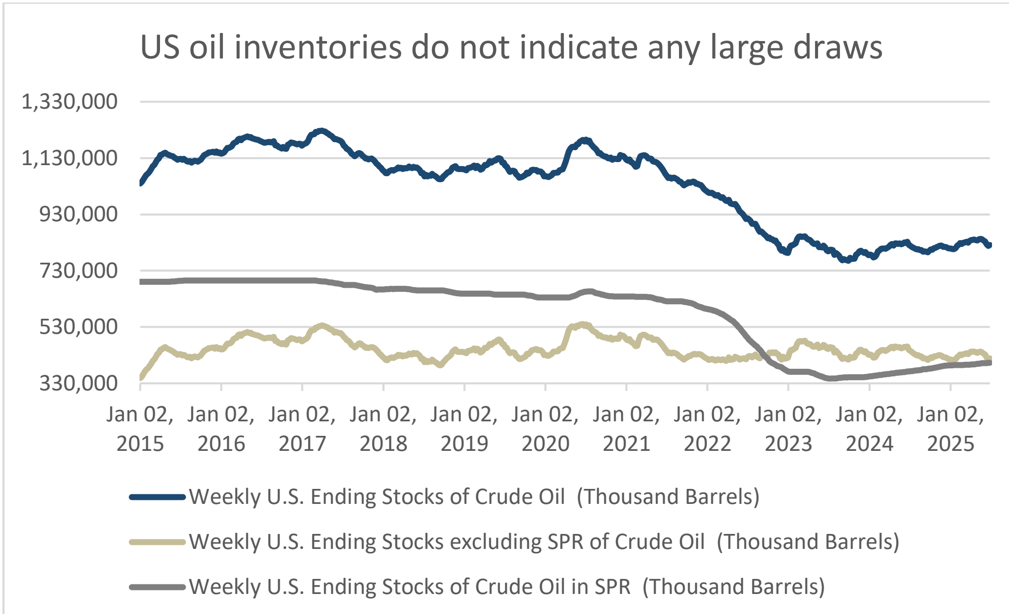
Source: Investing.com, FRED St. Louis

Given the historic "three-cycle inflation dynamics", could commodities spike again?

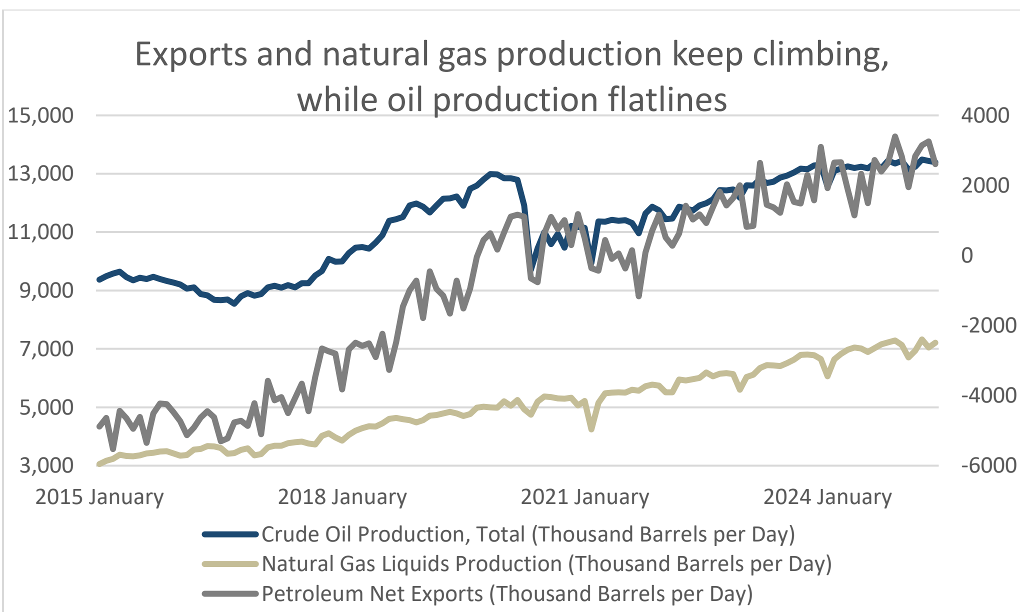
I expect oil prices to remain stable due to OPEC+ increasing output through 1x138k bpd hike in April, 3x411k bpd hikes between May and July, a 548k bpd hike in August[7] and potentially an additional 550k bpd in September[8] would bring total increase to 2.469m bpd – above OPEC's initial 2.2m bpd target output hike), and a 250k bpd production increase in Guyana to be expected in August/September[9]. On the other hand, US oil production could decline due to stable production over the last few months whilst the oil rig count continues to decline. Finally, US commercial crude oil inventories could drop below their 5-year average over the summer, which likely triggered OPEC+'s decision to deliver the output hikes now (the US became a competitor rather than a Middle Eastern oil buyer in recent years). In total, this will likely lead to lower US net exports and OPEC+ grabbing market share, keeping the oil balance stable – I have a similar view on natural gas due to more LNG export facilities coming online and production being prepared to manage the uplift. The only spike in oil and gas prices could therefore come from any geopolitical event with Iran or Russia (Iran did prepare for mining the Strait of Hormuz before peace kicked in[10]), perhaps in

[7] https://www.reuters.com/business/energy/opec-considers-raising-oil-output-by-550000-bpd-august-sources-say-2025-07-05/
[8] https://www.reuters.com/business/energy/oil-slips-1-after-opec-accelerates-output-hikes-2025-07-06/
[9] https://www.reuters.com/business/energy/first-crude-guyanas-fourth-platform-be-exported-august-september-2025-06-11/
[10] https://www.reuters.com/world/middle-east/iran-made-preparations-mine-strait-hormuz-us-sources-say-2025-07-01/

6 months, if historic three-cycle inflation spike would repeat itself. However, there are some opportunities in the metals space, PGMs, copper, etc., which will be explored in another note.



Source: EIA



Source: EIA

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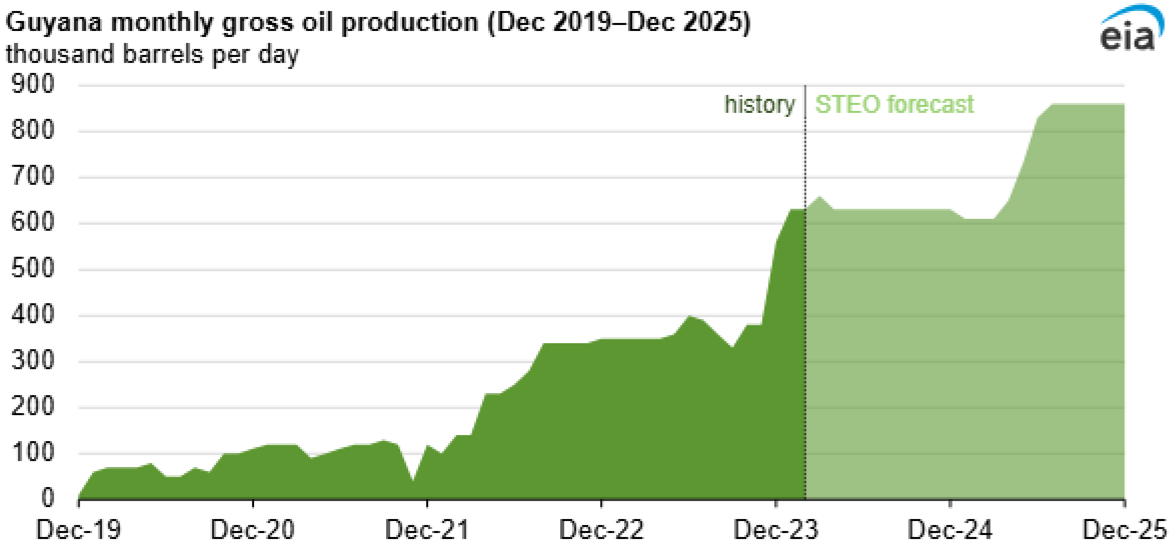
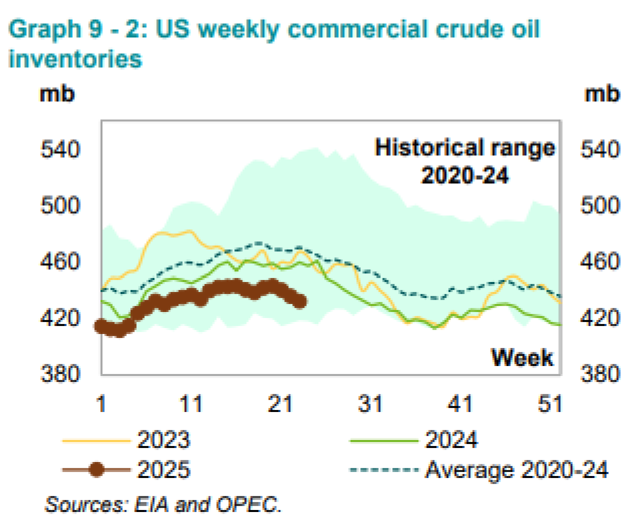


Source: EIA, https://www.eia.gov/todayinenergy/detail.php?id=62103

<u>US commercial oil inventories will likely drop below 5-yr average</u>



Source: OPEC June monthly report, https://www.opec.org/monthly-oil-market-report.html

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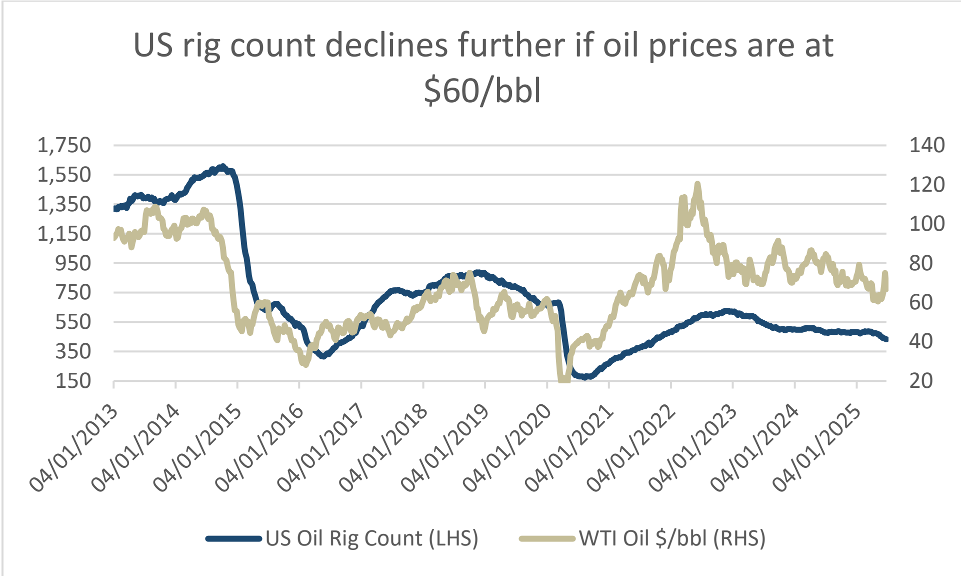

Source: Baker Hughes, FRED St. Louis

<u>Year-to-date OPEC+ output hikes amount to 1.919m bpd (in 000s bpd)</u>

Month	Output change
Apr-25	138
May-25	411
Jun-25	411
Jul-25	411
Aug-25	548
Sep-25	*550

Source: OPEC, *expected

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Announced OPEC+ output hikes are real and not making up production below quotas (in 000s bdp)

OPEC+ Member	May 25 Production	June 25 Quota	Difference
Algeria	921	928	7
Azerbaijan	462		
Bahrain	184		
Brunei	86		
Congo	253		
Equatorial Guinea	62		
Gabon	233		
IR Iran	3,303		
Iraq	3,930	4,086	156
Kazakhstan	1,803	1,500	-303
Kuwait	2,424	2,466	42
Libya	1,302		
Malaysia	345		
Mexico	1,450		
Nigeria	1,544		
Oman	761	775	14
Russia	8,984	9,161	177
Saudi Arabia	9,183	9,367	184
South Sudan	111		
Sudan	23		
UAE	2,973	3,092	119
Venezuela	896		
Sum	**41,233**	**31,375**	**396**

Source: OPEC

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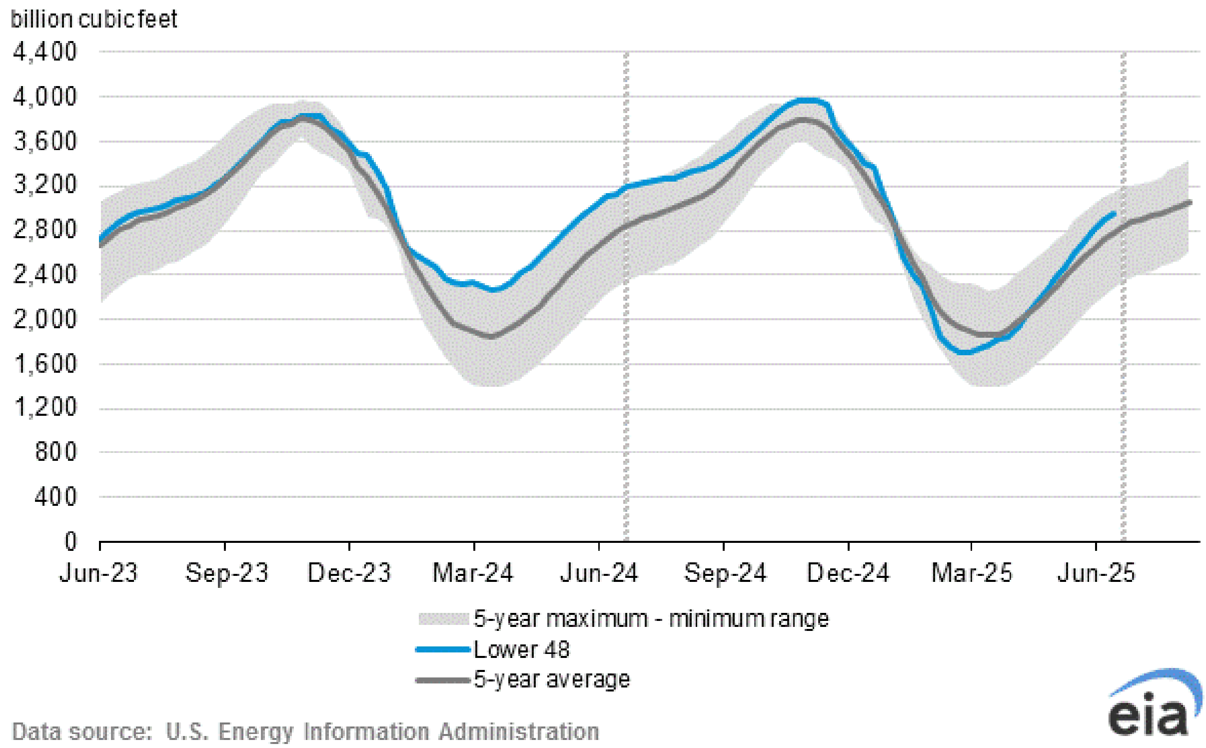
Working gas in underground storage compared with the 5-year maximum and minimum

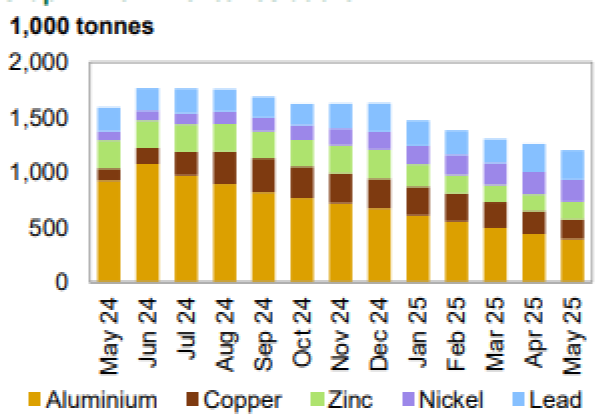


Data source: U.S. Energy Information Administration

Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2020 through 2024. The dashed vertical lines indicate current and year-ago weekly periods.

<u>Metals inventories keep declining, as pricing finally adjusts higher</u>

Graph 2 - 3: Inventories at the LME



Sources: LME, Thomson Reuters and OPEC.

Source: OPEC June monthly report, https://www.opec.org/monthly-oil-market-report.html

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Performance[11]

As mentioned in the introduction, the 6% performance in Q2 is somewhat discounted by around 2.8% due to multiple ex-dividend dates in June for RWS, B&M European Value Retail and S4 Capital. Overall, performance could have been better despite the Iran-Israel war, as I quickly adjusted the portfolio, selling S4 Capital, RWS and Future, and buying Enquest and Hunting. I exited 80% of the position in Enquest before the end of the war, which led to a meagre 4% return and sold Hunting on 24th June with a 0% return. Selling Hunting was a very unfortunate chain of events, as on the day when oil was down 15% due to the Iran-Israel peace announcement, Hunting announced an attractive acquisition, but I was late to email them for the webcast link and then Trump tweeted in the afternoon, implying that he might lift sanctions on Iran and let China buy their oil, leading me to sell Hunting and missing out on +10% returns. However, despite an attractive valuation for Hunting, their low order book and the low oil price just made me a bit more cautious. Looking back over the last 9 months, following Trump has been somewhat detrimental to performance. Believing him on solving the Ukraine war as President-Elect and the tweet about Iran-China made me miss out on some very good returns (Centrica in Q4 24, Hunting in Q2 25). It's hard to draw a lesson from this, as Trump did deliver on many of his other promises, although they didn't really impact the portfolio…

Current Holdings

Company	Average Purchase Price	Current Market Price	% change
B&M European Value Retail	2.78	2.71	-2%
Trainline	2.77	2.78	0%
CLS Holdings	0.68	0.70	3%
RWS	0.93	0.89	-5%

As of 30th June 2025

[11] all assumptions and observations are based on internal modelling and data analysis

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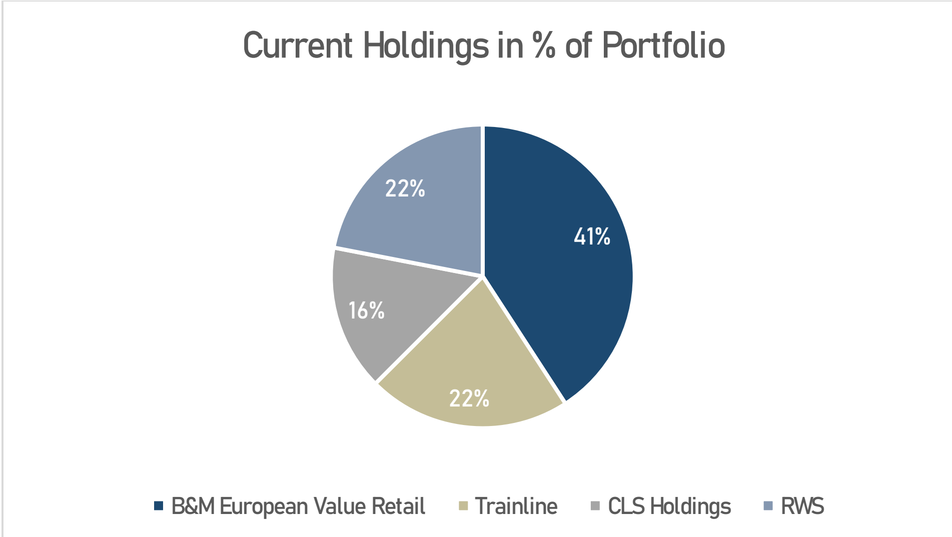

As of 30th June 2025

New entries[12]

After the Iran-Israel war, the entire portfolio changed once again in a short period of time, largely because of the USD devaluation. Entry and exit notes are to come. In short, B&M European Value Retail benefits from good weather for their garden and leisure products and from a weaker USD, while trading near historic low equity valuation compared to free cash flow (although the update from Greggs again made me cautious due to their high historic stock correlation). Trainline is impacted by a wider rollout of “pay-as-you-go” and the nationalization of British railways, but this appears largely priced in and the company still guides for growth, especially in Europe. CLS Holdings is a special situation where the equity trades at a 65% discount to NAV (note here). However, I exited the position already with a 5% return after the CFO unexpectedly resigned and after they sold properties in Germany with a 10% discount to NAV (proceeds used to increase the position in Trainline). Finally, I re-entered RWS after the Iran war, as the valuation remains below my target. However, the company has quite a bit of negative exposure to USD weakening (£0.5m PBT for 1 cent movement in GBPUSD) and I exited RWS as the next update is only coming in October. I reallocated some of the capital to Future plc, which has a trading update on 17th July. The Audioboom update[13] gave me a bit of comfort that advertising spending is still doing well.

[12] all assumptions and observations are based on internal modelling and data analysis
[13] https://www.londonstockexchange.com/news-article/BOOM/q2-trading-update/17123056

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www.aozorastep.com · david@aozorastep.com

Outlook

There are so many variables that all point to a major market reaction. This current environment has facets of 1929 (tariffs, government debt/GDP, inequality, end of globalization, new energy transport technology), the 1970s (inflation, geopolitics) and 1999 (end of yield curve inversion without a crash, potential AI equivalent dotcom bubble). Outperformance in sectors like banks and gold generally happens towards the end of a cycle. In the near term, I see another month of USD devaluation as the main risk to companies that are exposed to a weaker USD, which is why I repositioned the portfolio towards companies that have no such exposure (apart from RWS). However, I also struggle to see a crash so early into a new Presidency, which generally never happens. Recently, many UK listed micro caps began adopting a bitcoin treasury policy, i.e. holding bitcoin instead of cash. Monitoring the performance of these companies and whether larger companies start adopting a bitcoin treasury policy could help indicating the top of a bubble.

UK companies that implemented a bitcoin treasury adoption (mostly in recent days)

Bitcoin treasury policy	Market cap in £m	Bitcoin holdings in £m	Performance since bitcoin treasury adoption
TruSpine Technologies plc	2.61	0	200%
GSTechnologies Limited	32	0	28%
Smarter Web Company plc	800	60	220%
Amazing AI plc	3.4	0	-33%
Vinanz limited	65	0.5	44%
Vaultz Capital plc	26	4	692%
Mendell Helium plc	2	0	-17%
Phoenix Digital Assets plc	26	25	19%
Tap Global plc	18	0.4	44%
Vault Ventures Plc	2.7	0.1	83%
Panther Metals plc	3.7	4	7%

all figures as of 4th July 2025

Source: RNS of individual companies

Sincerely,

David Herrmann

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www.aozorastep.com · david@aozorastep.com

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21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com