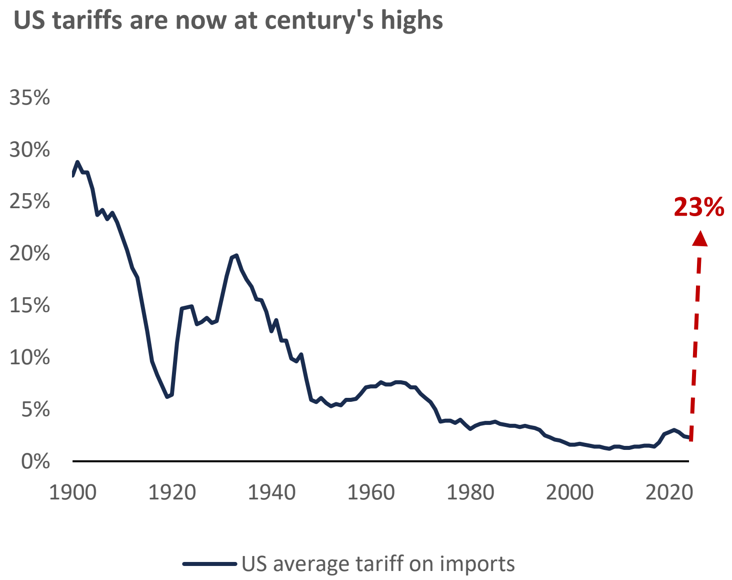
April 10th, 2025

# Q1 2025

Dear Investors,

Hanway Capital Fund has returned **+6.2% this quarter,** reaching a share price of **€158.40** net of fees and commissions. In just 100 days, Donald Trump has dispelled all doubts about the direction of his second term: this time, the vertigo of power will not force him to moderate his policies. As his first major measure, the president has launched an unprecedented tariff war, raising tariffs in the United States to levels not seen since the late 19th century. It is difficult to imagine a more disruptive change of course: with a single stroke, he has blown up the institutional architecture that enabled humanity's most prosperous period, caused a shock to international trade that could be even more damaging than the pandemic, and led the American stock markets to close their worst quarter in relative terms in 23 years. The White House resident looks more like an arsonist playing with fire: as we write these lines, the 100% tariffs between the US and China effectively mean a complete halt to trade between the world's two largest economies.




## Mount McKinley

In our last letter, we advised on the enormous uncertainty around markets by not knowing who Donald Trump would listen to when he began his second term as the 47th president: his voters, his donors, or his own instincts. Well, the worst fears have been confirmed: Trump, who will never again need the votes of his citizens or the money of his sponsors, will do what his business judgement tells him to do.

The truth is, the signs were there for anyone who wanted to see them. On January 20th, Trump decided, among his first executive orders, to change the name of North America's highest mountain. Mount Denali was renamed Mount McKinley, in honor of a former American president from last century.

William McKinley was president from 1897 until his assassination in 1901. He is best known for being a major proponent of industrial protectionism in the US, raising tariffs to historical levels to protect domestic manufacturing. During his time as a congressman, he promoted the McKinley Tariff Act, one of the most controversial tariff laws in US economic history. Later, as president, he doubled down by passing the Dingley Act, which raised tariffs to an all-time high of 47%. His foreign policy also consolidated a shift toward expansionism with the annexation of Puerto Rico, Guam, and the Philippines after the Spanish-American War.

Donald Trump is a fervent admirer of this forgotten American president. He was the only one he mentioned during his inaugural address on January 20th, when he promised that "we will once again follow the vision of great American leaders like William McKinley, who believed in tariffs to protect American workers." A century later, Donald Trump revives that logic and, after several attempts, presses the nuclear tariff button on "Liberation Day". The big difference is that McKinley was building an empire; Trump seems determined to dismantle his.

Trump makes a huge mistake in interpreting the US economic situation. He starts from a completely distorted analysis, in which he supposedly believes all countries abuse the US and that's why it has a large trade deficit. A country's trade balance is the difference between exports and imports; if a country imports more than it exports, like the US, it has a trade deficit.

In practice, if you are a small economy with a weak currency, a sustained trade deficit can be dangerous. The country would lose capital if it didn't generate enough reserves, causing currency devaluations, inflation, and even a debt crisis. Lack of trust would cut off its access to international credit, and it could end up going bankrupt; this was the case, for example, of Argentina in 2001 or Sri Lanka in 2022.

But the United States is the world's largest economy and controls the reserve currency par excellence: the US dollar. This gives it an enormous privilege: it can pay its trade deficit simply by issuing more dollars, because there will always be demand. This is what is known in the financial world as its "exorbitant privilege." This means that the US trade balance is completely irrelevant, because defaulting on its debts is practically impossible.

This exorbitant privilege has allowed more than 300 million Americans to achieve the highest standard of living in world history. To put this into perspective, the poorest state in the United States, Mississippi, currently has a per capita GDP higher than that of the United Kingdom, France, or Germany. Furthermore, this world order has seen more than a billion people lifted out of extreme poverty as the production of goods shifted from the West to the East, what business schools call a win-win situation.

But according to US Secretary of Commerce Howard Lutnik, the US trade deficit is a serious problem because other countries get to take away American money. In other words, he believes it's bad business to exchange dollars created out of thin air for real products whose production costs the rest of the world enormous resources. While the world exports goods, Americans export dollars. Furthermore, contrary to what Lutnik believes, those dollars don't stay in the exporting countries; they return to the US in the form of investment when the rest of the world buys American stocks and bonds. In other words, America’s enormous trade deficit not only doesn't harm the US, but actually benefits it.

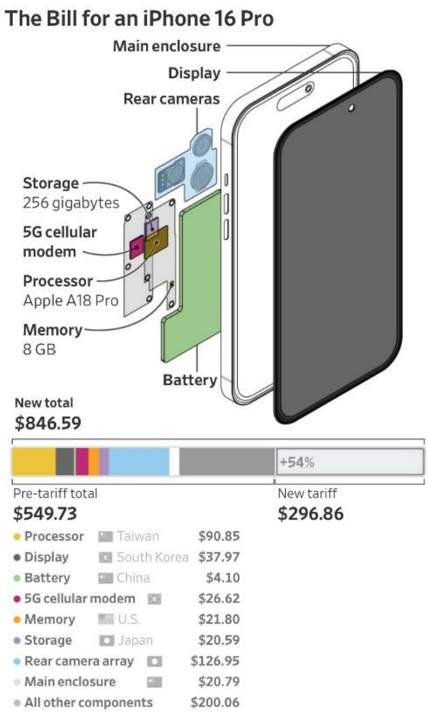
## The orange swan

Since Donald Trump presented his trade plans on a blackboard on April 2nd, the world's stock markets keep plummeting; no one was prepared for a black swan event of such magnitude. Although the stock market turmoil began in February when the American president began threatening tariffs on his main trading partners (China, Mexico, and Canada), no analyst had predicted, even in their worst-case scenarios, what has ultimately happened. Trump predicted the day as one of the most important days in American history, and he was right. His "Liberation Day" represents the total abandonment of the global trade order and a return to a 19th-century protectionist model.

In the best-case scenario, all products entering the United States will be subject to a minimum 10% tariff. From there, things get worse: a 20% tariff will be applied to the European Union, 24% to Japan, 27% to India, 46% to Vietnam, and 104% to China. The numbers are as absurd as his reasoning. Using an unusual calculation, he has decided to impose a "reciprocal" tariff on all countries that have a trade deficit with the United States, regardless of the actual tariff applied to them. The administration's lack of seriousness has even led to the ridiculous 10% tax on the Heard and McDonald Islands, located in the Indian Ocean with a population of a few thousand penguins and zero human beings.

The average US tariff will soar to its highest level in a century, but the world has changed a lot since then. Today's supply chains are tremendously complex; after decades of global stability in trade, globalization has enabled extraordinary efficiency in the production of goods. When we buy a product, it is hard to realize that more than 50 countries could be involved in the different components. Detecting the traceability of all of them is extremely complicated, which is why it is too early to predict the real impact of these tariffs on businesses and the economy.

If the tariffs are implemented as proposed, what we can expect is an immediate spike in inflation. After three years of a successful battle by central banks, they have managed to contain inflation without provoking a recession — something virtually never achieved before — now an average tariff of 24% will have a brutal impact on prices. Ironically, it will be the same working classes that brought Trump to power who will be most harmed. His comments over the weekend that he "doesn't care at all" about rising car prices seem to ignore the fact that Biden lost the election due to the discontent caused by inflation among the population.




Companies will also immediately feel the impact of tariffs. It's not clear that all of them will be able to pass on the new tax on to consumers. American companies trade at high multiples on the stock market precisely because of the large margins they have; with the new tariffs, everything they can't pass on to the end consumer through price increases will have to be absorbed by reducing margins.

Take the iPhone as an example, the Wall Street Journal shows us in an infographic on how its production cost would skyrocket by 54% (and this is before the additional 50% that Trump has imposed after China retaliated, which would increase the tariff to 104%).

We are facing a complete paradigm shift. The world is moving away from an economic model centered on "efficiency" based on a ruled-based order (1945-2020) to a model dependent on "resilience" based on different spheres of influence (from 2020 onward). This forced deglobalization can only bring higher inflation, lower economic growth, and greater geopolitical instability.

## From Pax Amerciana to America First

It may seem like a hyperbole, but we firmly believe that in just three months, the Trump administration has managed to forever dynamite the global economic and geopolitical order that has prevailed since the end of World War II; nothing will ever be the same. A breach of trust of this magnitude is definitive, and the dismantling of Pax Americana has only just begun.

A Pax Americana that, despite Donald Trump's belief that it harms his country, was designed à la carte by them, and handed them global hegemony. For almost a century, they had the privilege of unilaterally dictating the rules of the game: the rules of trade, intellectual property, finance, culture, and even war. Everything revolved around America’s interests, using institutions that, if not directly controlled, were tailored by them: the UN, World Bank, the WHO, the IMF, NATO, even Hollywood, Silicon Valley, and Wall Street. That’s what Pax Americana was about.

In return, the US only had to offer the rest of the world two things: global peace, provided through an army deployed around the globe, and unrestricted access to the American market, with its insatiable consumers who also have a high purchasing power. We believe it was an excellent deal for the United States and one that has benefited it enormously, but clearly the current administration doesn't share our opinion and has decided to blow it up. From now on, access to the American market will no longer be equal for all; American companies will have priority. And the American military will no longer act as a global arbiter: it will only intervene in conflicts in which it has a direct economic interest. This is the only reason why Trump humiliated Ukrainian President Volodymyr Zelensky asking him to sign away the economic benefits of their rare earths in exchange for helping them defend against the invader.

But the United States will pay a high price for this alteration; it will remain the most powerful country in the world, but it will become just another country, unable to dictate the rules of the game. New York will no longer be the only option if you want to take your company public; California will no longer be the only option for founding an innovative company; the dollar will no longer be your only option to guarantee the security of your savings; US Treasuries will no longer be the asset on which everything else is priced; and we will move from a unipolar military force that guaranteed a certain order to a multipolar mishmash with a high risk of geopolitical clash.

The most significant impact of this paradigm shift will be that countries will no longer coordinate with each other to achieve the best results for the entire system; from now on, they will compete with the belief that, with the referee now gone, everything is legit to achieve a competitive advantage that harms others.

From Pax Americana to America First. It's hard to understand that the United States itself would destroy this balance; we believe it's the biggest policy mistake in recent history, and there's no going back. The tariff war will end, either because Trump will surrender when the consequences become palpable, or because Republicans in Congress will revolt against their president when they see the polls, or simply because some court will stop them. But it will be too late; the United States will have shown the entire world that it cannot be trusted.

In such a turbulent world, one thing will remain unchanged. At Hanway Capital, our focus will be to remain patient and diversified across different assets, and to ensure wealth preservation generating stable long-term returns. In the coming years, this will mean looking far beyond the United States.

## Management report

Let us now analyze the fund's individual positions for this quarter:

1. **Equity position:** The first quarter of the year on the stock market has not been exceptional in terms of results; the global index has barely fallen 2%. Geographical differences, however, have been notable: European stocks have risen more than 6% while American stocks have dropped 4%. Since the turn of the century, this has been only the second time that European equities have outperformed the United States by more than 10%. The asset's contribution to Hanway's results has been positive, at **+1.1%**, partly thanks to the significant revaluation of European defense companies following Trump's disastrous meeting with Zelensky in the Oval Office. We took advantage of this rebound to sell the position after a year invested.

2. **Volatility position:** With Trump's return to the White House, volatility is once again attractive. The new president is in the headline news every day around the world, and with his constant changes of opinion, he moves the markets at will. Since the beginning of the year, stock market movements have gone from averaging 0.8% daily movement to 1.6%. Our volatility positions have contributed **+2.6%** to the fund's results.

3. **FX position:** 2025 began with the same strong dollar trend that ended the previous year; with the dollar almost at parity, we decided to close our foreign exchange position, considering it had already run its course. Since then, the euro has begun a considerable rebound following Germany's breach of its debt ceiling to finance a rearmament of the continent. We currently hold no foreign exchange positions, which have deducted **-0.1%** from overall results.

4. **Precious metals:** The uncertainty created by Donald Trump has pushed gold to its best quarter since 1986, reaching $3,000 per ounce for the first time. This is one of our highest conviction investments, given the decline of the USD as a financial reference will prompt many central banks to diversify their reserves away from the dollar. This quarter, gold contributed **+2.0%** to returns.

5. **Fixed Income futures:** In 2022, we warned that bonds wouldn't serve as a hedge against an inflation-driven stock market crash. Now, however, we believe they will perform well in the next cycle, especially if it's driven by an economic slowdown. This new position has helped the fund by **+0.6%**.

6. **Commodities:** In addition to our uranium position, we have added positions in other commodities more closely linked to the economic cycle. These latter have helped offset the declines in uranium, resulting in this asset-class neither adding nor subtracting from the quarter's final results.

*"Men are moved by two levers only: fear and self-interest"*

- Napoleon Bonaparte

Regards,
Hanway Capital

## Appendix: Hanway Capital historical net returns

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | - | - | - | - | - | - | - | - | - | - | -0.4% | 1.2% | **+0.8%** |
| **2020** | -2.9% | -3.0% | 18.3% | 4.6% | -0.4% | 3.2% | -23% | 0.5% | -2.7% | -1.9% | 9.1% | 3.8% | **+27.0%** |
| **2021** | -1.9% | 2.8% | 3.0% | 1.2% | 0.6% | 0.9% | -0.8% | 1.5% | -1.1% | 2.4% | 1.3% | 3.1% | **+13.7%** |
| **2022** | -1.7% | 0.0% | 2.1% | 1.8% | 0.8% | -6.1% | 3.0% | 2.6% | 2.1% | 1.9% | -2.2% | -1.7% | **+2.0%** |
| **2023** | 1.1% | 0.5% | -3.1% | -1.0% | -1.2% | -3.7% | -0.1% | 1.2% | 1.6% | 0.2% | -1.0% | 0.2% | **-5.4%** |
| **2024** | -2.5% | 0.2% | -1.5% | -3.8% | 4.3% | 1.3% | 2.2% | -5.2% | 4.0% | -0.4% | 9.3% | -1.1% | **+6.2%** |
| **2025** | 3.6% | 3.4% | -0.8% | | | | | | | | | | **+6.2%** |



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