July 15th, 2025

Q2 2025

Dear Investors,

Hanway Capital Fund has returned **+2.1% this quarter,** reaching a share price of **€161.8** net of fees and commissions. This brings the **year-to-date return to +8.5%**. The Trump administration's *totum revolutum* continued throughout this second quarter. In April, we witness how the highest tariffs of the last century announced on Liberation Day triggered a 20% crash in the stock market. Just a week later, Trump was forced to pause their implementation for 90 days to contain a market frenzy that simultaneously sent equities, the dollar, and Treasuries into free fall.

This quarter also saw the long-anticipated clash between Iran and Israel, involving US bombers, while the war in Ukraine remains unresolved. In this letter, we would like to take a closer look at the changing world order and the new balance of power, to better understand the geopolitical forces currently at play. At the same time, the rapid erosion of the United States' democratic architecture continues to pave the way for the enemies of the current global equilibrium.

The Triple Alliance against the liberal world order

For several years now, and especially since 2020, we have had a growing sense that history is accelerating. As we are still digesting the latest headline, we are overwhelmed by the next one, ever more alarming. This isn't just a feeling; there is a real threat to the liberal world order established by the West after World War II which consolidated following the collapse of the Soviet Union and the end of the Cold War. An order that once seemed so stable that some optimists dared to call it "The End of History." An illusion that, once the USSR's communist system was defeated, a free-market system based on liberal democracy and human rights would inevitably spread throughout the world.

Instead, we are witnessing a clear retreat of American leadership, stemming from an erratic foreign policy set in motion by the neoconservatives after 9/11—one that Obama's multilateralism failed to correct. The European Union, hampered by its lack of unity and strategic autonomy, remains trapped in a state of lethargy that prevents it from emerging as a genuine leader. It risks fulfilling the prediction of former EU High Representative Josep Borrell: *"those not at the table are likely to be on the menu."*

This retreat by the Western bloc is being exploited by the emergence of a strategic alliance between China, Russia, and Iran—united by a shared ambition to dismantle the liberal world order, which they view as an obstacle to their national objectives. While Beijing, Moscow, and Tehran do not share a common worldview or ideology—indeed, they have different priorities and a history of tensions—they are bound together by a common adversary: the United States, the West, and its global influence.

This is why we insist that current geopolitical conflicts cannot be understood in isolation. They must be seen as part of a coordinated effort by this triple alliance to challenge the West across all fronts, in a block-based dynamic that strongly resembles the Cold War. These are no longer disconnected regional crises; they are local expressions of a global struggle between competing visions of world order.

This coordination between Xi Jinping, Vladimir Putin, and Ali Khamenei can be seen on multiple fronts: both in the diplomatic and financial complicity Russia has received from China, and in the logistical and technological support in the form of Iranian drones flooding the skies over Ukraine. And in Tehran's goal of building a Shiite crescent from Beirut to Tehran, made viable only by Russia's backing of Bashar al-Assad's regime in Syria. In return, Russia secured a military foothold in the Mediterranean.

The economic viability of the ayatollahs' regime in the face of harsh international sanctions can only be understood with the support it receives from China, which now purchases 90% of its crude oil production. For that very reason it was easy to foresee, that after the American bombings, the Iranian parliament's threat to block the Strait of Hormuz would remain empty words. Implementing the blockade would have primarily harmed Chinese interests, the very lifeline sustaining the regime.

The strategy of this autocratic axis is to support each other in all global conflicts, fostering alliances with third countries that share its opposition to the Western order: Bolivia, Venezuela, Afghanistan, North Korea. Even several African states in the Sahel (Mali, Burkina Faso, Niger) have suffered coups sponsored by the Russian mercenary group Wagner in recent years, thus distancing themselves from French and American influence. This has led to a progressive alignment of many regions of the world in line with this new polarization, with clear examples in Latin America, the Middle East, and Southeast Asia.

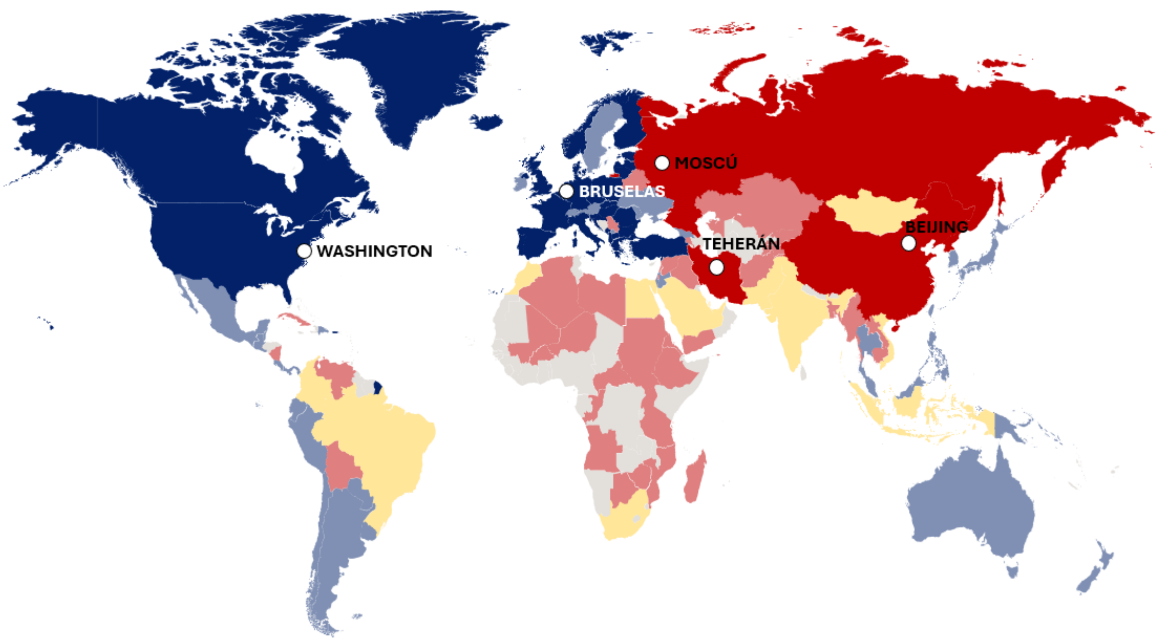
The United States, for its part, is responding with a rather conservative strategy: seeking to maintain the status quo, avoid military escalation, and manage conflicts in isolation and with surgical precision. Its main objective is to prevent the situation from escalating to a point of no return, one where a direct confrontation between the two blocs, i.e. a Third World War, becomes a realistic scenario.

This attitude is evident in its careful provisioning of arms to Ukraine, while simultaneously pressuring it towards capitulation. It also shows in its demand that Israel abides by a ceasefire just 12 hours after bombing Iran's nuclear program, or in its tacit support for Taiwan without committing to its defense—thus maintaining its doctrine of "strategic ambiguity." Let us not forget that, despite being the least active conflict, Taiwan remains the most volatile flashpoint on Earth—one that could lead to a direct crash between the United States and China; we must remain vigilant.

This also explains why Donald Trump has been unable to reach an agreement with Vladimir Putin to end the war in Ukraine. Despite the American president's certain devotion to the Russian leader, current dynamics make any rapprochement impossible. There is no scenario in which Putin would move closer to the United States and betray his alliance with Xi Jinping. Russia is entirely dependent on China today. And if the United States' closest allies can no longer rely on Donald Trump, it's hard to imagine Vladimir Putin would place any greater trust in him.

Let’s not forget that just 20 days before the full-scale invasion of Ukraine, Putin was warmly welcomed in China to attend the opening of the Winter Olympics. There, they signed a joint declaration of cooperation and rejection of U.S. hegemony and the Western liberal order, calling their alliance a “no-limits friendship.” A year later, after a state visit, Xi bid Putin farewell with a whisper: “A change is coming that hasn’t happened in 100 years, and we are driving this change together."

In short, today’s world is organized around two major blocs: the liberal order led by the United States and NATO, and the strategic alliance of autocratic regimes formed by China, Russia, and Iran. This division plays out on multiple fronts—Ukraine, the Middle East, the Sahel, Korea, and potentially, in the future, Taiwan—and involves both firm alliances and tactical balancing. Understanding current geopolitics requires identifying these two poles, the countries aligned with them, and those that, by contrast, oscillate between the two blocs in an attempt to extract strategic advantage from their ambiguity (India, Brazil, South Africa, Turkey). Despite regional nuances and specific contexts, all of this points to a global struggle which, while not yet a World War, already marks a new phase of systemic confrontation.



Disunited States of America

Despite the growing threat to liberal order, the Western bloc is at its lowest point in terms of unity. Since Donald Trump's return to the White House, the usual codes of diplomacy and historic alliances have been shattered. In Brussels, there is a sense that their main partner can no longer be trusted and that profound reforms will be needed to guarantee strategic autonomy.

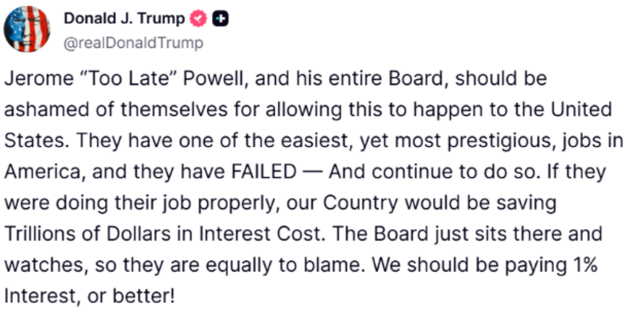
The United States is undergoing democratic, institutional, and diplomatic backsliding. The Trump administration operates less like a bureaucratic government and more like a royal court, where power stems from personal loyalty to the leader rather than any formal hierarchy. A patronage network has emerged in which Trump loyalists flourish, while detractors or critics are marginalized and humiliated. Trump is testing every seam of the American institutional framework, even as polarization among citizens continues to grow.

We do not intend to sound alarmist: the United States is neither on the brink of civil war nor on the verge of becoming an autocratic dictatorship. We fully recognize the strength of the American democratic system, with its "Checks and Balances" clearly protected by the Constitution. As much as Trump now has free rein to act as he pleases, judicial rulings will eventually come, and next fall he will face midterms — the legislative elections that will determine the new composition of Congress, where Republicans could lose their majority.

Nevertheless, the symbolic and reputational damage is far from negligible. Among the president's many feats in this 2.0 version, we would highlight some of the most significant:

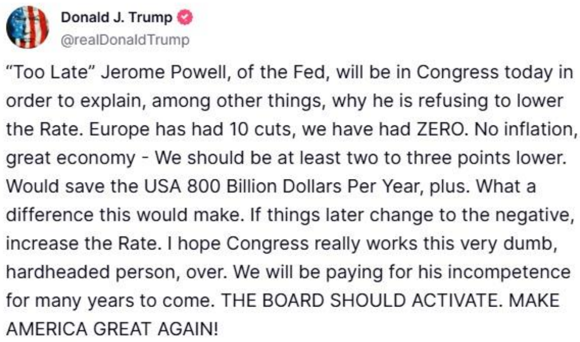
- Launching a trade war without electoral backing, forcing many companies to reconsider their exposure to the American market. Wherever they end up, tariffs now stand at 16%, the highest level in a century, and their effects will eventually show up in unemployment, corporate margins, and inflation.
- Using tariff policy to pressure a foreign country (Brazil) into dropping legal proceedings against Jair Bolsonaro, one of his political allies.
- Alienating America's closest ally (the European Union) during a speech by Vice President JD Vance in Munich, where he accused the bloc of manipulating electoral processes.
- Including a clause in his budget law *(One Big Beautiful Bill Section 899)* that sought to arbitrarily tax foreign holders of US debt.
- Cutting funding and restricting access for foreign students to universities like Harvard for ideological reasons, thereby undermining America's ability to attract global talent.
- Threatening his own backer, Elon Musk, with arbitrary deportation following political disagreements.
- Conducting police raids without legal safeguards to deport undocumented immigrants, leading to labor shortages in agricultural and hospitality.

- Publicly and deliberately humiliating allies in the Oval Office: Zelensky (Ukraine), Ramaphosa (South Africa), Merz (Germany) or Carney (Canada).
- Undermining the independence of the Federal Reserve and repeatedly harassing Governor Powell, whom he appointed in 2017, to lower interest rates.



Donald J. Trump
@realDonaldTrump

Jerome "Too Late" Powell, and his entire Board, should be ashamed of themselves for allowing this to happen to the United States. They have one of the easiest, yet most prestigious, jobs in America, and they have FAILED — And continue to do so. If they were doing their job properly, our Country would be saving Trillions of Dollars in Interest Cost. The Board just sits there and watches, so they are equally to blame. We should be paying 1% Interest, or better!



Donald J. Trump
@realDonaldTrump

"Too Late" Jerome Powell, of the Fed, will be in Congress today in order to explain, among other things, why he is refusing to lower the Rate. Europe has had 10 cuts, we have had ZERO. No inflation, great economy - We should be at least two to three points lower. Would save the USA 800 Billion Dollars Per Year, plus. What a difference this would make. If things later change to the negative, increase the Rate. I hope Congress really works this very dumb, hardheaded person, over. We will be paying for his incompetence for many years to come. THE BOARD SHOULD ACTIVATE. MAKE AMERICA GREAT AGAIN!

Our focus is precisely on this last point, not necessarily because it is the most alarming, but because it could determine the direction of markets in the second half of the year. Donald Trump has spent months engaged in a campaign of pressure and disruption against Federal Reserve Chairman Jerome Powell, urging him either to lower interest rates or to step aside for someone who will.

The Federal Reserve (Fed) was created by and is accountable to Congress. The Board of Governors is appointed by the president and confirmed by the Senate, but the Fed operates with full independence in setting monetary policy. In other words, its decisions to raise or lower interest rates must be made without interference from the executive branch.

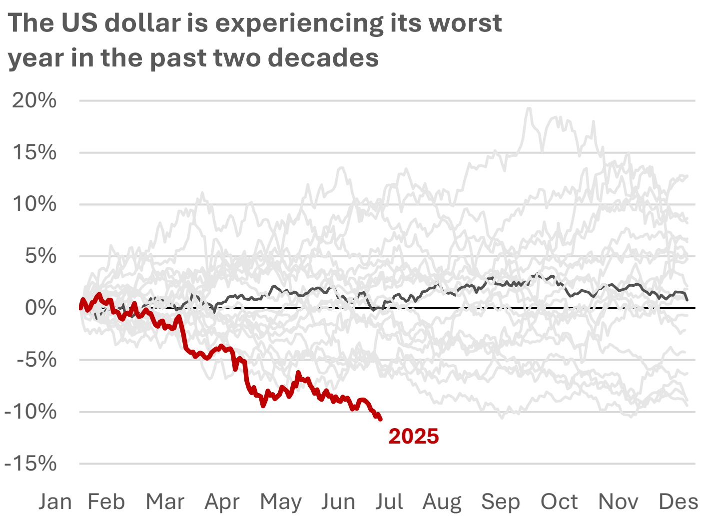
The Fed has a dual mandate: to maintain price stability and to promote maximum employment. In practice, if the economy is expanding, unemployment is low, and inflation begins to rise, the Fed should raise interest rates to cool things down. Conversely, in a recession with soaring unemployment, it should cut rates to stimulate activity.

The reason the Fed must remain strictly independent is obvious: monetary policy can accelerate or slow down the economy. If a president could influence its decisions, he would always be tempted to overheat the economy to enjoy the immediate political benefits of lower unemployment – while leaving the inflationary consequences to his successor.

Today's outlook leaves little room for doubt: U.S. unemployment is at historic lows (4.1%), and inflation is slightly above the 2% target (around 3%). In addition, the full inflationary impact of the current tariff policy remains to be seen. That's why Powell and the Fed board believe now is not the time to lower interest rates. This has infuriated Donald Trump, who sees lower rates as a way to finance the enormous deficits his administration is running—especially since interest payments on U.S. public debt now exceed the defense budget.

What Trump seems to ignore is that the cost at which the country finances itself is set by the market, not the Fed. If rate cuts go ahead but investors see them as a sign that the Fed is abandoning its inflation mandate, long-term interest rates, which matter more for financing costs, could spike, potentially triggering a debt crisis with unpredictable consequences.

That’s why we are watching closely for any attempt to undermine the Fed’s independence. Albeit on a different scale, Venezuela and Turkey offer cautionary tales of what happens when central banks bend to the president’s will: investors flee in panic. In fact, signs of growing investor unease are already visible, it's no coincidence that the US dollar is having its worst year in two decades.



As we discussed in our [previous letter](), we are witnessing a transition from Pax Americana to America First. This shift will bring profound changes in international relations, trade, and capital flows. **At Hanway Capital, we remain your trusted partner in navigating this new global order. Our mission is to preserve and grow the value of your capital as we enter what promises to be a turbulent decade.**

Management report

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

1. **Equity position:** The decision to hedge currency exposure, or not, has been a key factor in equity investment performance. For a European investor in US equities, for example, this quarter was either spectacular (+10%) or mediocre (+1%), depending on the currency strategy. At Hanway, we have been hedging our currency exposure for a while, although our equity allocation has remained below 50%. We have also slightly reduced our exposure to the US in favor of Europe: despite the undisputed leadership of American tech companies, we do not rule out that the 15-year streak of US stock market dominance may have peaked in 2024. This position contributed **+2.1%** to the fund's performance.

2. **Volatility position:** Though it seemed unthinkable on April 8th when the S&P 500 had dropped 20% from its peak, volatility actually declined over the quarter. The VIX, the benchmark index for volatility, started April at 22 points, spiking above 50 in the days following the tariff announcement, and then fell back below 17 by the end of June driven by Trump's hesitation to implement the measures. While volatility is approaching more attractive entry levels, the fact remains that implied volatility is still pricing in far more uncertainty than what we are currently observing, undoubtedly a reflection of the unpredictability of the US president. Our volatility position detracted **-1.3%** from performance.

3. **Precious metals:** Gold continued its upward trajectory, particularly in April, when it rose another 5% to reach $3,400 per ounce. Since then, it has consolidated, awaiting new catalysts, which we believe could come from renewed tensions between the US administration and the Federal Reserve. It's worth remembering that periods of US dollar weakness have historically been positive for gold, which then regains its status as a safe haven. This quarter, our gold position contributed **+0.7%.**

4. **Fixed Income futures:** During the panic episode in April, sovereign bonds initially acted as a haven amid fears of an economic slowdown. However, they quickly gave back those gains as investors began selling off any asset denominated in US dollars—likely one of the reasons Trump reversed course on tariffs. This position contributed **+0.2%** to the fund's quarterly return.

5. **Commodities:** Uranium had its best quarter in years, more than offsetting the mild declines in other commodities more tied to the economic cycle. By the end of the period, this position added **+0.4%** to overall performance.

"Nations have no eternal allies, nor perpetual enemies. Only interests are eternal and perpetual."

- Lord Palmerston

Warm 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%	-2.3%	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%	-0.9%	-2.1%	3.1%	1.2%							**+8.5%**

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