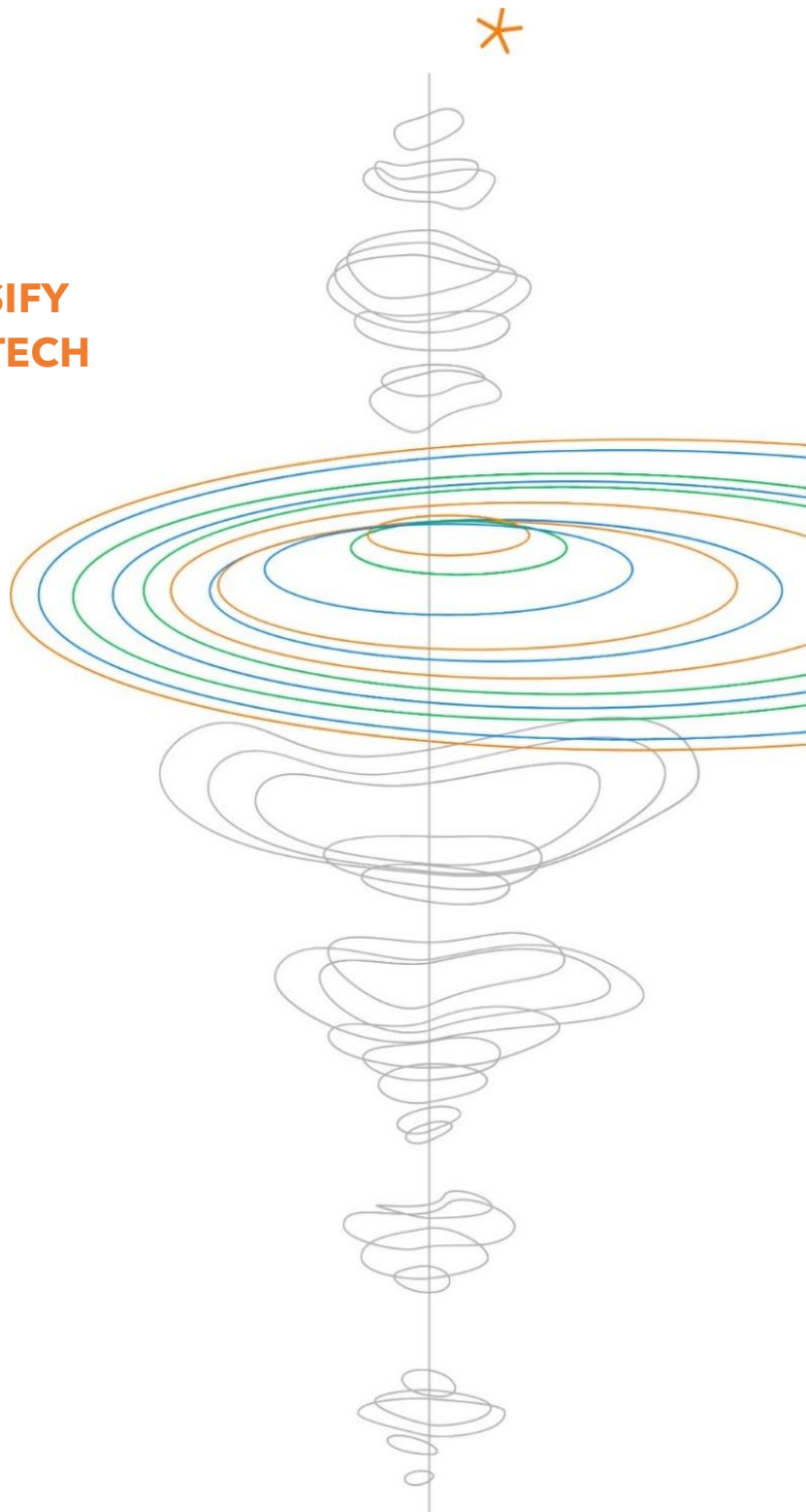


CRACKS IN THE CROWN:

**WHY IT IS TIME TO DIVERSIFY
BEYOND U.S. MEGA-CAP TECH**



The global investment landscape is undergoing a profound shift as long-standing assumptions about U.S. economic and market dominance are increasingly called into question. Recent political developments, policy uncertainty, and technological disruption have exposed vulnerabilities in the pillars of U.S. exceptionalism. This has triggered volatility in equity markets, particularly among the most concentrated areas of investor exposure. In this environment of rising geopolitical risk and structural change, diversification is emerging as a strategic necessity rather than a defensive posture.

The end of US exceptionalism?

"U.S. Exceptionalism," broadly characterized by sustained economic dominance, the global reserve currency status of the U.S. dollar, and technological leadership—especially in areas like artificial intelligence—has long underpinned investor confidence. Yet, early 2025 saw significant disruptions across these pillars. President Trump's re-election, initially positive for investor sentiment, soon led to volatility following aggressive tariff policies, notably a 145% tariff on Chinese imports, raising fears around inflation and economic growth. Opened criticism of the Fed leadership from the White House weakened the US central bank independence, key to the financial institutional framework. U.S. equity markets faced notable declines, with the "Magnificent 7" tech stocks dropping 16%, the S&P 500 falling 4.3%, and the Russell 2000 down by 9.5%, while long term US treasuries lost ground trading up to 4.5% for the 10 years benchmark. This recent turbulence now raises important questions about the durability of America's exceptional status across multiple strategic fronts.

Contrastingly, European markets outperformed, with the MSCI Europe Index gaining 8.6% in USD terms, driven by fiscal expansion and structural reforms.

Mag7 facing structural problems

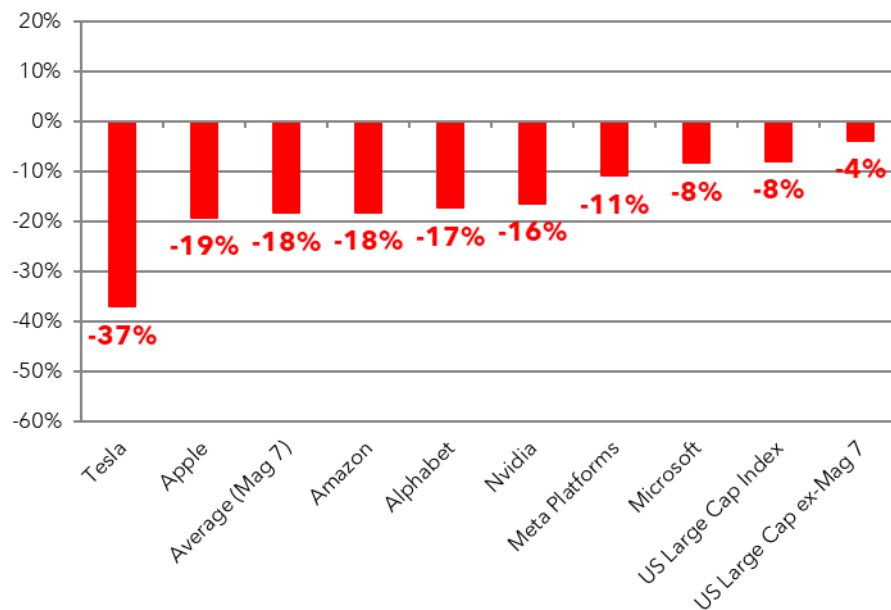
By early 2025, the heavy concentration in U.S. mega-cap tech stocks revealed significant vulnerabilities. On January 27, Chinese startup DeepSeek launched a generative AI chatbot. Trained at a fraction of the cost and time of its competitors, DeepSeek's emergence triggered a \$1 trillion sell-off in U.S. tech stocks, underscoring the sector's fragility.

Several of the Mag 7 are confronting persistent challenges that may signal a shift in their market dominance. First, Meta is embroiled in a high-stakes antitrust trial initiated by the U.S. Federal Trade Commission (FTC), which seeks to compel the company to divest Instagram and WhatsApp. The FTC alleges these acquisitions were strategic moves to eliminate competition, effectively establishing a monopoly in the social networking market. The outcome could significantly impact Meta's structure and market position.

Besides, Nvidia faces substantial setbacks due to new U.S. export restrictions on its H20 AI chips to China. These restrictions have led to an anticipated \$5.5 billion financial impact from inventory write-downs and cancelled orders. The H20 chip, designed specifically for the Chinese market, now faces indefinite licensing requirements, severely limiting Nvidia's access to a sizeable revenue stream.

These developments, which led to significant market underperformance of these stocks, highlight the risks of concentrated investments in mega-cap tech stocks, prompting investors to reassess their strategies and consider broader diversification.

Figure 1: US 'Magnificent Seven' YTD performance vs rest of the index (data as of 15th April):



Source: Bloomberg. US Large Cap index = S&P 500; US Large Cap ex-Mag 7 = BBG US Lrg Cap Ex M7 TR

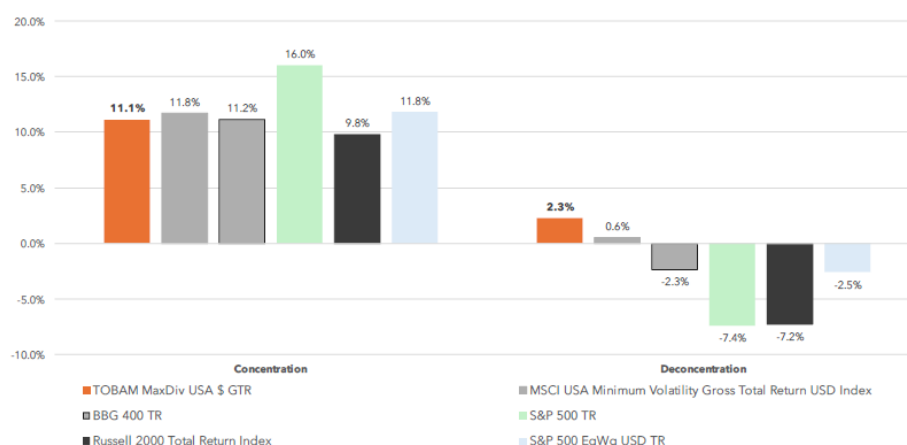
Diversify to Thrive

In this evolving landscape of radical uncertainty—where the contours of a post-globalization world remain undefined—diversification becomes not just a tactical choice but a strategic imperative. Investors should consider reducing their reliance on U.S. markets while also reassessing how they are exposed to them. Diversification should operate on two levels: geographically, by increasing allocations to international assets, and domestically, by rebalancing within U.S. equities.

Crucially, not all U.S. exposures are equal. Small caps, while often cited as diversification plays, are ill-suited to the current environment given their high financial leverage and historical underperformance during recessions. A more appropriate approach lies in reweighting towards mid- and large-cap stocks outside of the crowded mega-cap names. These companies offer more resilient fundamentals and better adaptability to an uncertain policy and trade backdrop. This is precisely the rationale behind our Multi-Diversification (MD) strategy, designed to help investors navigate this complex transition.

The MaxDiv® strategy exemplifies the long-term benefits of diversification, particularly in mitigating risks associated with market concentration. Historically, markets experience cycles where periods of extreme concentration are often followed by abrupt phases of deconcentration. During such transitions, we observe that diversified portfolios like MaxDiv® tend to outperform and more interestingly, offer convexity relative to the concentration risk: the outperformance of MaxDiv® during deconcentration is significantly higher than the underperformance of MaxDiv® during market concentration.

Figure 2: Return of Maxdiv® and several index peers across extreme market concentration and deconcentrating regimes (30/06/2000 - 31/03/2025)



Source: TOBAM and Bloomberg. Performance returns are stated in USD and are gross of fees. The period presented above shows the gross performance of the strategies from 06/30/2000 to 03/31/2025.

Figure 3: TOBAM MaxDiv performance YTD (as of April 2025):¹

Period: December 31, 2024 - April 22, 2025	Gross Performance		Volatility	
	Period	Delta	Period	Delta
TOBAM MaxDiv All World (GTR) (USD) BBG World Lrg/Mid Cap TR**	-1.48%	4.96%	14.98%	-26.97%
TOBAM MaxDiv All World Developed (GTR) (USD) BBG Dev Mkt L/M TR**	-0.89%	6.40%	16.24%	-27.42%
TOBAM MaxDiv North America \$ GTR (USD) BBG N America L/M TR**	-4.89%	6.68%	20.39%	-27.86%
TOBAM MaxDiv USA \$ GTR (USD) BBG US L/MC TR**	-6.76%	5.30%	21.09%	-26.37%
TOBAM MaxDiv Canada C\$ GTR (CAD) BBG Canada L/MC TR**	0.37%	2.52%	18.70%	-9.85%
TOBAM MaxDiv Dev Europe € GTR (EUR) BBG Europe DM L/M TR**	1.83%	1.17%	17.30%	-16.42%

CONCLUSION:

In the current financial landscape, characterized by heightened volatility and shifting global dynamics, the risks associated with concentrated investments have become increasingly apparent. The recent underperformance of U.S. mega-cap tech stocks, coupled with China's moderated growth and structural challenges, underscores the necessity for a diversified investment approach. Historical patterns reveal that market concentration cycles are often followed by abrupt deconcentration phases, during which diversified portfolios tend to outperform. Strategies like MaxDiv® exemplify how diversification can mitigate risks and enhance returns during such transitions. Embracing diversification is not just prudent but essential for navigating long term market cycles.

¹ Sources: TOBAM, Bloomberg. Indexes are unmanaged and do not incur management fees, costs and expenses. One cannot invest directly in an index. Warning: Past performance is not an indicator or a guarantee of future performance. The value of your investment and income received from it can go down as well as up and you may not get back the full amount invested. Performance details provided are in the base currency of the Index and include reinvested dividends.