HEYÓKHA BROTHERS

Investor Report

"When sorrows come, they come not single spies, but in battalions"

- Claudius in Hamlet, Act IV Scene V

Q3 2025 Reflection

Heyokha

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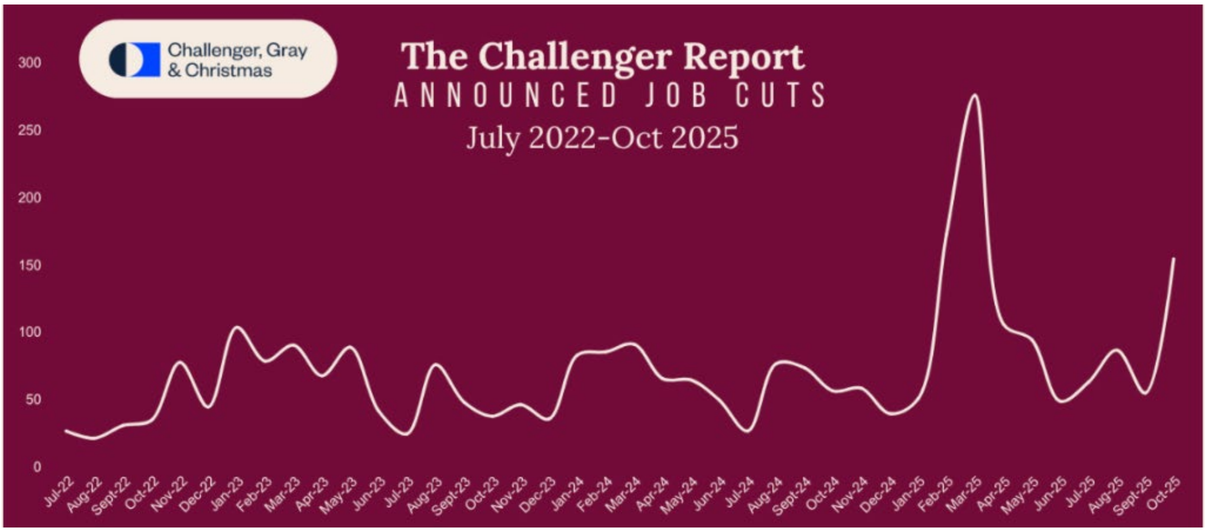
The Story

The Fed's job is simple on paper: **keep people employed** and **keep prices stable.** Today, both alarms are blaring at once. **Inflation is stuck** near 3 percent, above target, even as the labour market starts to fray.

October alone saw **153,074 job cuts**, the **worst for that month since 2003** and a 175 percent jump from a year earlier. Total layoffs have crossed 1.1 million this year. Amazon is trimming fourteen thousand jobs, Verizon fifteen thousand, and tech plus warehousing north of eighty thousand. More than thirty-one thousand cuts were linked to automation and AI. If this is a "strong" economy, it is one with a limp.

153,074 job cuts in October? Where is this "strong" economy?



Source: Challenger

These are the crosscurrents the Fed cut rates into. September and October brought back-to-back reductions, pulling policy rates toward 3.75 to 4.00 percent. Yet **instead of unity**, the moves exposed a **divided board.**

Hawks warn that inflation is still too high. **Powell** has stressed no decision is predetermined, whereas **Stephen Miran** wants fifty basis points with a view the policy stance as "very restrictive". Markets heard that hesitation and divide loud and clear. The **probability of a December cut collapsed** from over 90% to about 40%, raising **concerns** about the **Fed's consistency and credibility**.

Which brings us to a scenario we think is worth considering. Indulge us for just a minute:

Picture the U.S. a year from now.
With Trump asserting control, the Fed's independence is gone. Rates get pushed lower not because inflation is conquered but because politics insists on cheaper money. Liquidity floods the system once again.

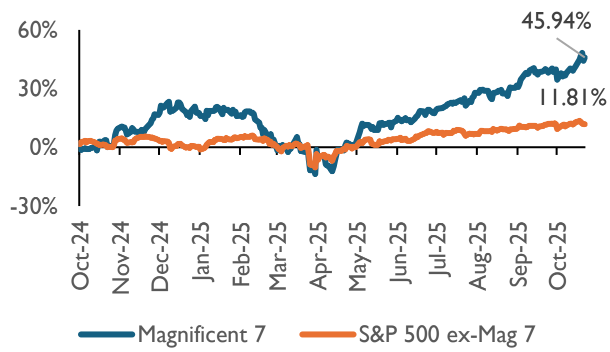
And the reason this is worth considering is because the ingredients for that world are already in motion. A pressured central bank. A fragile macro backdrop. A political cycle tugging at the wheel. **If monetary independence weakens**, **liquidity accelerates**. And when it accelerates, it tends to find concrete, copper, and every **hard asset** that cannot be printed. Not to mention the trust in the U.S. Dollar will wane.

And you know what else is starving for hard assets and real-world resources? AI.

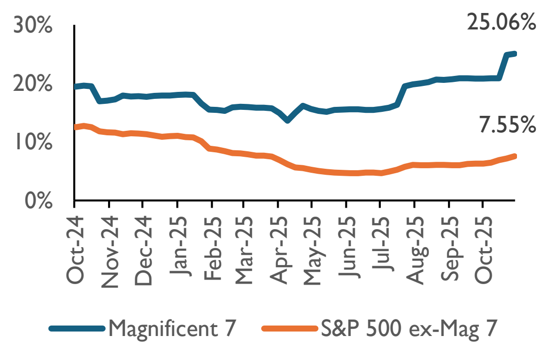
AI, to no one's surprise, carried U.S. equities in Q3. The sector now accounts for roughly **80% of S&P 500 gains year-to-date**, supported by an extraordinary surge in capital intensity. **AI-related investment contributed nearly 40% of U.S. GDP growth in 2025**, and that share may rise as governments and corporates accelerate their race for computing sovereignty.

Not breaking news: The Mag 7 continues to dominate

Percentage appreciation of Price Return Index of Mag 7 vs S&P 500 ex- Mag 7



Earnings estimate of Mag 7 vs S&P 500 ex-Mag 7



Source: Bloomberg

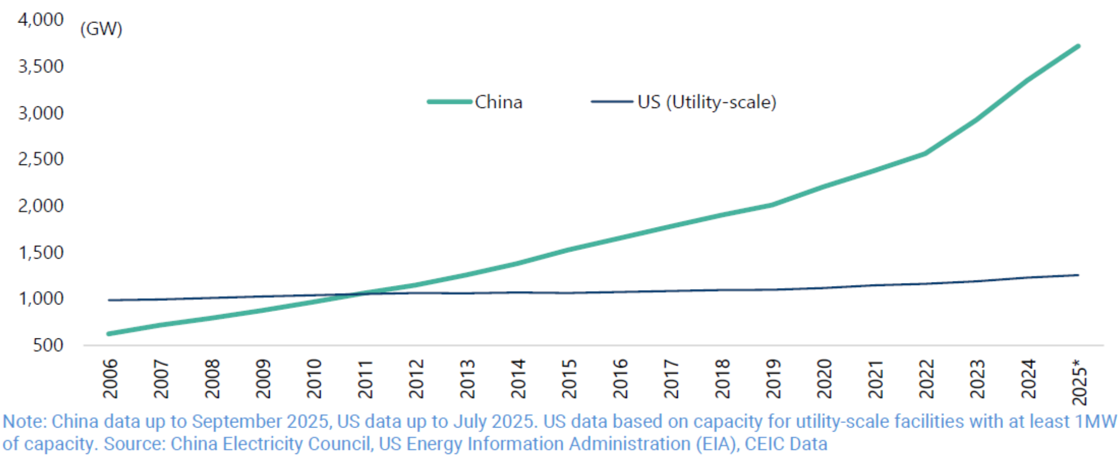
Behind the market leadership is a deeply physical story. **Data centres** are on track to consume **1,600 TWh of electricity by 2035** about **4.4% of global power use**, effectively making "AI" the world's **fourth-largest electricity consumer**. **Compute demand** is **doubling** every 100 days, straining grids from Northern Virginia to Singapore and turning power, water, land, and transmission capacity into hard constraints rather than abstractions.

And this is where the geopolitical edge begins to show. The countries that can **scale power the fastest** and the **cheapest** are expected to pull ahead in this AI race. China, in particular, is widening that gap. Subsidised electricity has pushed Chinese data-centre power costs far below U.S. levels, cheap enough for **Nvidia's Jensen Huang** to warn that "**China is going to win the AI race**."

U.S. hyperscalers are hitting capacity ceilings: Microsoft now admits that "power has become the biggest issue" for new builds, while Amazon is flagging grid shortages just as hyperscaler capex rises from US$360–370bn in 2025 to US$470bn in 2026.

Where the power really lies

China and US (utility-scale) electricity generation capacity (stock)



Source: China Electricity Council, US Energy Information Administration (EIA)

In an open letter to the White House Office of Science and Technology Policy on 27 October, OpenAI highlighted just how far that gap has widened: China added **429 GW of new power capacity last year**, which is more than a third of the entire U.S. grid and more than half of all global electricity growth. In the first nine months of 2025 alone, China added **240 GW of solar capacity**, already larger than the **entire installed solar capacity of the United States** at roughly 178 GW.

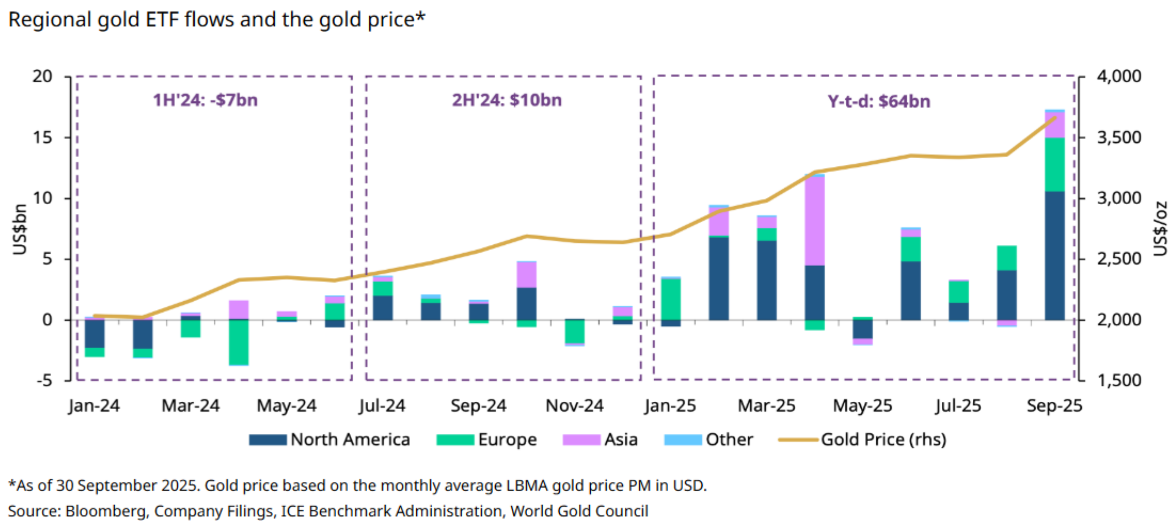
The AI race is no longer just about model leadership or software breakthroughs. It increasingly hinges on who can **secure the physical backbone of intelligence—power, chips, data-centre capacity**, and the **commodities** that underpin them. Software advantages still matter, but they compound only when the underlying infrastructure can scale. Those who **especially control energy, copper, and critical materials** will **hold a commanding position in the next phase of AI,** where physical constraints, not ideas, define the outer limits of progress.

The race for critical minerals is on.

As financial markets chase digital dreams, real-world assets are also having their moment. Gold prices rose nearly 16% in Q3, from around US$3,338 to US$3,859/oz, marking one of the metal's strongest quarters in years. Total demand, including OTC trades, hit a record 1,313 tonnes worth US$146 billion, up 44% y/y in value terms.

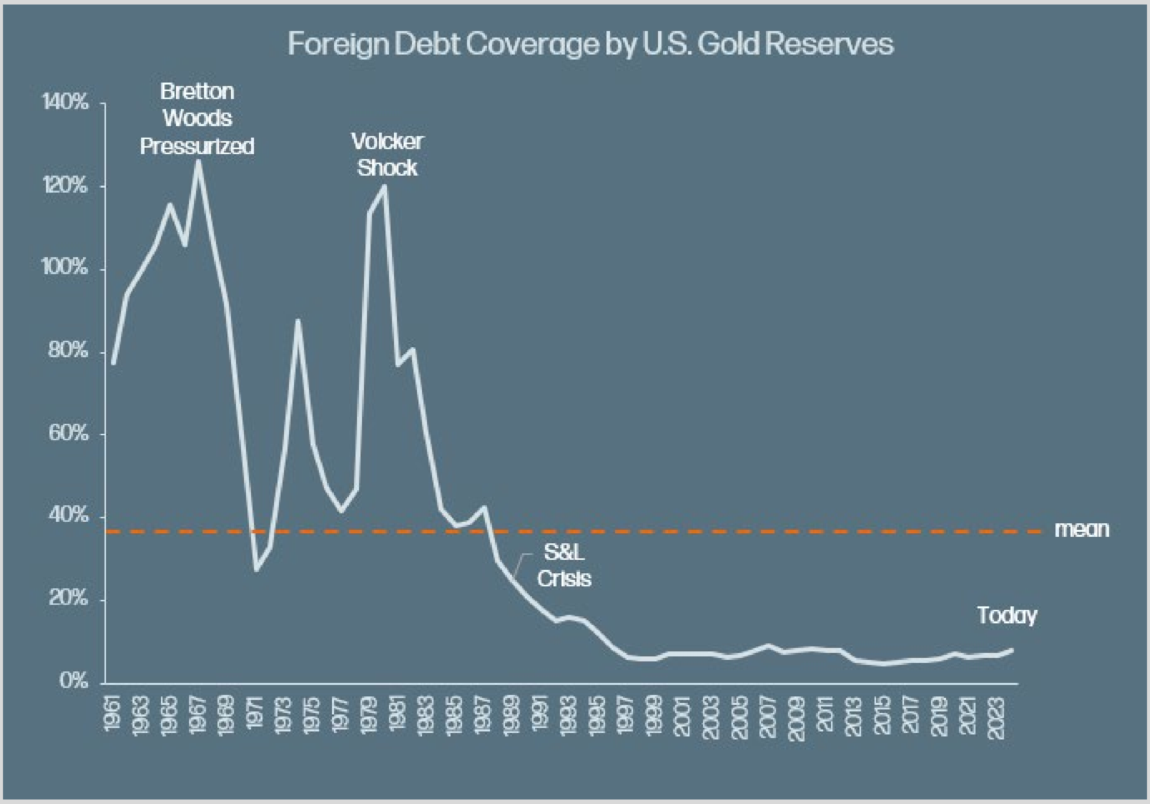
ETF inflows (+222 tonnes) and steady central-bank buying (+220 tonnes) anchored the rally, reaffirming gold's role as the ultimate liquidity refuge. Whether seen as a hedge against policy slippage or a quiet vote of no confidence in fiat promises, the message was clear: in a quarter defined by leverage and liquidity, capital returned to the one asset that doesn't need anyone's guarantee.

Western buyers drive record-breaking gold ETF inflows



Source: Bloomberg, World Gold Council

Fed's Hidden Piggy Bank for Gold



If gold were to be revalued to 1970s past crises levels, gold would be worth $44,000/ ounce

Buried inside the Fed's accounting manual is a little-known mechanism: the U.S. Treasury can "revalue" its gold reserves. Official U.S. gold is still priced at a 1970s-era **$42 per ounce**, even though the market price now hovers around **$3,800**. Simply marking that gold to market—without selling an ounce—could unlock roughly **$1.0–1.2 trillion** in paper gains.

To put that in perspective, that's about **4% of total U.S. federal debt** (roughly **$34 trillion**) and equivalent to an entire year of U.S. interest payments at current rates. Historically, gold revaluations have coincided with major fiscal resets—1934 under FDR and 1971 under Nixon. If a revaluation happened today, the move would effectively "recapitalize" the Treasury's balance sheet without issuing new debt, turning gold into a fiscal pressure valve.

It's also worth noting how little gold now backs the system: **U.S. official gold covers only around 11% of foreign-held USTs**, compared with a **long-term average around 40%**, and **135% during the 1980 dollar crisis**. Today's figure is historically thin.

Of course, it wouldn't be costless. Monetizing gold in this way could erode confidence in the dollar and add another inflationary tailwind. But the fact that such ideas are resurfacing on Wall Street reflects a deeper anxiety: when policy options narrow, even the unthinkable starts sounding pragmatic.

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This quarter, silver had its moment in the spotlight. No longer just the "poor man's gold", silver has outpaced gold in momentum, underpinned by a persistent **structural deficit**, now in its **fifth consecutive year**, as industrial demand from solar, semiconductors, and EVs tightens the market. In a world increasingly defined by physical constraints, silver is emerging not just as a monetary hedge, but as an industrial scarcity trade.

Washington's decision to add silver to the 2025 Critical Minerals List marks a meaningful shift in its strategic profile. It places silver alongside lithium, rare earths, and graphite. These are materials the U.S. views as essential for energy, defence, and semiconductor security. The designation opens the door to federal support, streamlined permitting, and supply-chain prioritisation. It also signals that silver is no longer treated merely as a financial asset but as **critical infrastructure** for the energy transition.

Separately, the Saudi Central Bank (SCB) has begun to build exposure to the metal. According to its latest 13F filing, SCB opened new positions in the iShares Silver Trust (SLV) and the Global X Silver Miners ETF (SIL) in Q2. While the amounts are modest, **the signal is what matters**: this is the first time a major central bank has added silver as part of its reserves strategy.

For half a century, Saudi Arabia has sat at the heart of the petrodollar system. Its decisions carry weight well beyond its borders. Since 2022, Riyadh has steadily increased its gold purchases and repatriation. These are moves widely read as part of a broader strategy to enhance national financial security in a more volatile geopolitical environment.

This comes against a backdrop of growing fiscal deficits in the U.S., political pressure on the Fed, and increasing signals from the Trump administration that a weaker dollar is the endgame. It's not just about hedging; it's about **building monetary resilience**. Saudi Arabia may be the first mover, but it's unlikely to be the last.

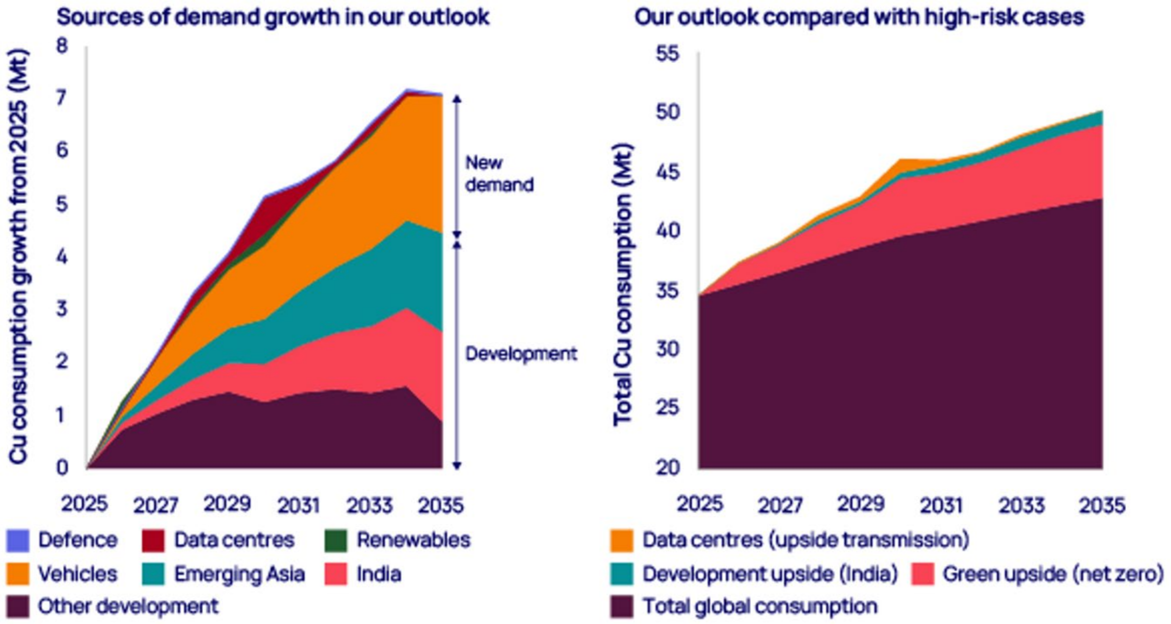
Silver has always been the high-beta cousin to gold. Now, it's also becoming part of the **geopolitical hard asset playbook**.

If gold and silver reflect monetary doubt, **copper** reflects physical reality. Prices nearly touched record highs in Q3, hovering around **US$10,500 per metric ton**, as a series of unplanned disruptions underscored the metal's fragile supply chain.

Freeport-McMoRan's Grasberg mine in Indonesia declared force majeure in September after a fatal mudslide halted ore shipments, removing about **250,000 tons** from global supply. **Ivanhoe's Kamoa-Kakula** in the DRC faced repeated power interruptions, while **Codelco's El Teniente** continued to battle geotechnical setbacks. The combined loss of more than **500,000 tons** of concentrate pushed prices to their highest levels in nearly two years. With inventories covering barely a week of consumption, each disruption now magnifies volatility in an already precarious balance.

Annual mine disruptions are running near **6% of global output** (**1.3 Mt**) as older, deeper operations and volatile weather increase both frequency and duration of outages. These operational risks are rising even before the longer-term deficit emerges. On paper, copper looks balanced through **2028–29**, but in practice, it is a system permanently on edge, where even minor interruptions ripple through global supply chains.

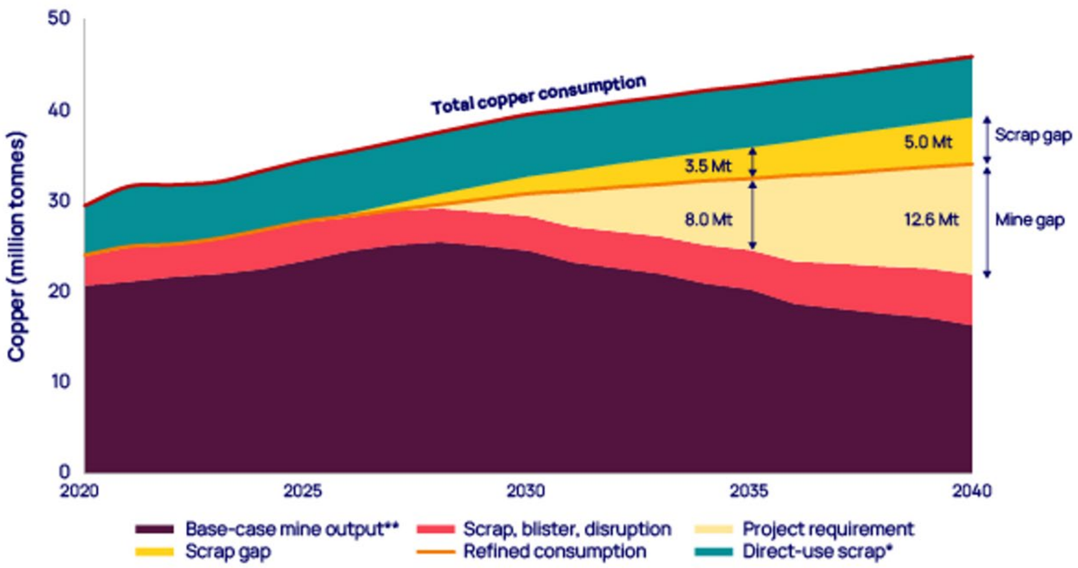
Copper demand in multiple sectors are seeing multiyear growth



Source: Wood Mackenzie

At the same time, demand keeps accelerating. Global consumption is expected to rise roughly **24% to 43 Mt by 2035**, powered by grid electrification, EVs, renewable build-outs, and surging data-centre demand. Electrification alone adds about **3 Mtpa** by 2035, while industrial re-shoring and defense programmes contribute another **4–5 Mtpa**. Even under the IEA's conservative *Stated Policies* scenario, copper demand from clean-energy technologies is set to **double by 2030**. The demand story is no longer cyclical—it's structural.

Rising copper shortage signals long term risk ahead



Source: Wood Mackenzie

Meeting that demand will be difficult. To stay balanced through 2035, the world needs **8 Mtpa of new mine capacity** and **3–4 Mtpa from scrap**, equivalent to nearly **900 kt of new projects each year**, twice the historical average.

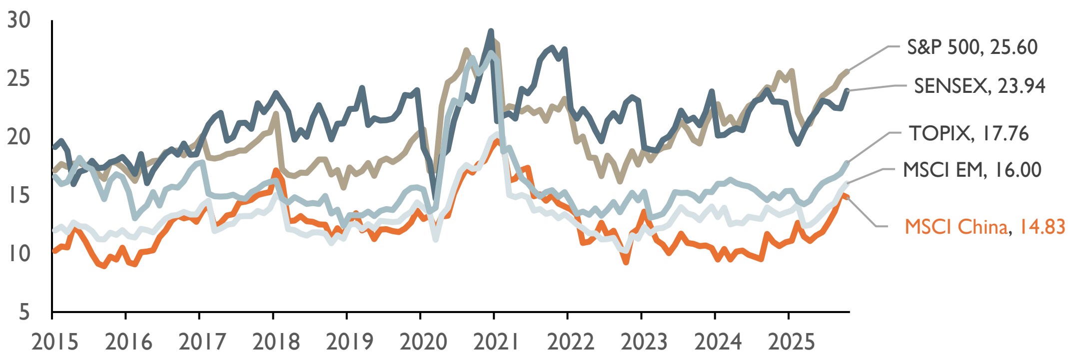
Yet the pipeline is thin: capital intensity is up **around 65% since 2020**, ore grades have declined **about 40% since 1990**, and permitting cycles stretch beyond a decade. Based on Wood Mackenzie's data, the copper balance will slip into **deficit from 2029**, widening to nearly **–10 Mt by 2040**. New supply will need incentive prices around **US$11,000 /t**, as **C1 cash costs** climb toward **US$2.50–3.00 /lb** for marginal projects.

The recent **US$53 billion Anglo–Teck merger** exemplifies the sector's response as seen in the consolidation for scale and long-life assets amid mounting cost and risk. **Glencore's** continued appetite for strategic M&A points the same way: organic growth alone can't bridge the looming gap. These moves don't fix today's shortages; they're bets on a future where copper scarcity is systemic. In a market defined by structural demand and constrained supply, scale and access, not discovery, have become the new currency of resilience.

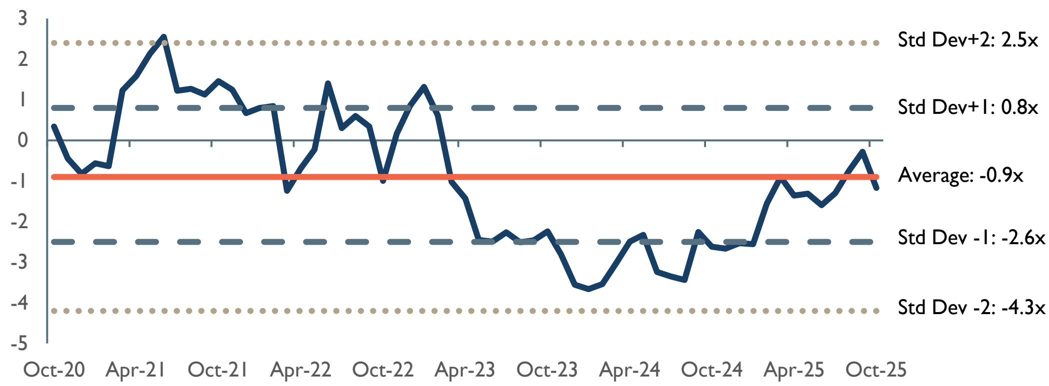
Amid this uncertain global backdrop, **China quietly became one of the best performing asset classes in 2025**. The Shanghai Composite broke the 3,900-point level for the first time since 2015. The CSI300 gained 18%, while the Hang Seng Tech Index surged 22% for the quarter.

China remains cheap despite partial recovery

Best P/E Ratio of MSCI China among peers



MSCI China Best P/E Ratio discount to MSCI EM's



Source: Bloomberg

Valuation still gives room to run. **MSCI China trades around 14.8× forward P/E**, below **MSCI EM (16.0×)**, **TOPIX (17.8×)**, and the **S&P 500 (25.6×)**. That **rounds close to1.2× discount vs EM** which leaves scope for re-rating as liquidity eases and domestic flows build.

Beijing isn't chasing a quick stimulus. Instead, it's carefully building what many are calling a **"slow bull"** which can be described as a a steady, policy-driven rise in equities. The goal is to shift household wealth away from property and bank deposits into the stock market. It's a simpler and safer lever than reigniting China's massive **RMB 300 trillion** real-estate market.

With the **A-share market worth around RMB 105 trillion**, the state sees an opportunity to rebuild confidence and the wealth effect through equities, a market it can influence more directly. Analysts estimate that by **2035**, as much as **RMB 43 trillion** (about 40% of today's A-share size) could flow into stocks from three long-term sources:

First, households.
Chinese households are sitting on about **RMB 160 trillion** of deposits which is roughly a quarter of their financial assets. Deposit rates have fallen to historic lows, with five-year loans priced near **3.5%** and one-year terms under **1%**. As cash yields dry up, households are slowly rotating into equities. Even a small mix shift could mean **tens of trillions of yuan** in new market inflows over the next decade.

Second, insurers.
Insurance companies are gradually becoming the market's institutional anchor. Regulators are encouraging them to hold more equities by easing capital requirements and linking SOE performance targets to long-term investing. Insurers' equity allocations are expected to climb from **8% today to about 15% by 2035**, adding another **RMB 10 trillion** of potential inflows.

Third, private pensions.
China's new private pension system, rolled out nationwide in late 2024, is already attracting millions of participants. Balances could grow from **RMB 110 billion today to RMB 26 trillion by 2035**, with an increasing share allocated to equities. That could mean **RMB 10 trillion** of fresh, long-duration demand for A-shares. In other words, patient capital that doesn't chase short-term cycles.

Together, these three channels form the foundation of Beijing's "slow bull." The aim isn't to spark a frenzy but to **build a structural bid** under the equity market, restore confidence, and lift consumption in a more controlled, sustainable way.

Source: Heyokha Research

Hong Kong's IPO market roared back in Q3, reclaiming its spot as the world's top fundraising hub since 2019. About 67 deals raised HKD182.9 billion (US$23.3 billion) in the first nine months of 2025, up 220% y/y and nearly double last year's count. Roughly half came from A+H dual listings, while the U.S. exchanges followed in second and third with a 19% rise in combined fundraising. Fueled by easier listing rules, policy support, and global liquidity, Hong Kong's pipeline now exceeds 300 active applications—a historic high.

Looking into **Indonesia**, the country **made a decisive move in Q3**. The newly appointed minister of finance Purbaya Yudhi Sadewa announced a **Rp200 trillion (~$12 billion)** liquidity injection into the banking system. This is an effort to stimulate credit growth and lower market rates. This injection, targeted at state-owned banks, signals a proactive stance from the new economic team under President Prabowo.

If executed smoothly, the injection could push GDP growth toward **6%** in the coming quarters, providing a domestic tailwind at a time when global liquidity is in flux. In an environment where many economies are tightening, Indonesia is one of the few loosening, positioning itself for relative outperformance.

This quarter underscored how much of the global market is resting on narrow pillars: AI in the U.S., strategic assets in China, and hard commodities everywhere else. Fiscal cracks in the U.S., persistent supply deficits in key resources, and policy divergence in Asia are shaping a new market regime—one where liquidity finds its way into real assets, not just paper narratives.

We remain positioned for that shift. Our focus continues to be on **precious metals, real assets, and pricing power equities**. Themes that don't just ride the wave, but outlast it.