



May Monthly Report

Dear Investors

We are pleased to provide you with the May 2025 Monthly Report for the Fawkes Capital Fund (“Fund”). In this monthly report, we:

- (1) Update our performance for May 2025; and
- (2) Provide a broader macro update

Performance Update

The Fund generated a satisfactory return of 5.6% throughout May, driven by a combination of macro positioning and single-name stock selection. On the macro side, our long equity index positions, established early in the month, performed well as the Trump administration shifted its policy stance. As the economic outlook improved and recession risks receded, our investments tied to higher interest rates also added to performance.

May-25	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	5.6%	12.2%	9.2%	13.6%	5.9%	8.3%	38.6%
Blended Index	2.3%	2.6%	8.5%	8.8%	6.8%	6.0%	26.0%
All Ords	4.2%	4.1%	12.4%	13.1%	9.3%	8.5%	39.5%
RBA Cash	0.3%	1.0%	4.4%	4.3%	3.8%	2.8%	11.9%

Returns are calculated net of fees and represent the combined income and capital returns over the specified period. All returns provided are in AUD. Blended Index returns are composed of 50% All Ords / 50% RBA Cash.

In terms of single names, we purchased shares in Google and UnitedHealth Group near their recent lows. These two positions remain a core part of our long-term portfolio, for reasons we detailed in last month’s note. We also benefited from meaningful gains in our antimony investment.

Taken together, these drivers contributed to a reasonable result for the Fund during the month. It is worth noting, however, that after two months of strong gains, some degree of retracement is normal, and we have seen this play out in June. We continue to monitor developments closely and remain focused on uncovering asymmetric risk-reward opportunities.

Macroeconomic Update

A Brightening Outlook

Our optimism on the outlook has continued to increase. As we gather more data, it's increasingly clear that the US consumer continues to spend undeterred by tariffs. Even after the initial imposition of tariffs, early indications suggest that consumer spending has continued to grow around 4-5% year-over-year. This outcome has been in line with our expectations.

Importantly, we now see less downside risk in equities compared to the heightened uncertainty that accompanied the initial trade upheaval. Much of the recent rebound appears to have been driven by US retail investors buying the dip, while many institutional investors, who sold heavily during the selloff, now find themselves underinvested. In fact, it's not just a handful of institutional players caught offside, but nearly the entire field.



Building on our analysis from last month, our sense is that there is still plenty of money on the sidelines that is waiting to be invested. In addition, US companies are now repurchasing shares at the fastest pace on record, adding further support to the equity market. Taken together, we believe the backdrop provides ample room for stocks to move higher from here.

There are, however, two potential risks that could temper this constructive view. The first is the possibility of a sharp increase in oil prices if supply from the Middle East is disrupted. While a temporary ceasefire has been agreed between Israel and Iran recently, it's not clear if it will last. Any material disruption to either Iran's three million barrels per day of oil production or restrictions on tankers in the Strait of Hormuz could cause oil prices to rise. Although the probability of such an event has declined, we continue to monitor this tail risk closely.

The second risk to the outlook is a breakdown in trade negotiations with key US partners. We believe that if Europe and China continue to negotiate in good faith, further tariff escalations will likely be delayed. While agreeing on non-tariff barriers will be challenging, the US has shown a clear preference for avoiding the brink. We remain watchful for developments on this front.

Speculation Rising and the Path Ahead

Equities have survived a difficult test and have emerged on the other side. We are now observing increasing amounts of speculative behaviour among market participants. For example, AI stock valuations have once again become stretched, and Circle Internet Group has surged more than 700% since listing. To us, this suggests there is still plenty of cash sitting on the sidelines, ready to be deployed. As we highlighted last month, the US consumer remains flush with savings, which further supports this backdrop.

Historically, such speculative excesses would be curtailed only when the Fed began raising interest rates. For instance, the post-Covid speculative boom was ultimately curbed in 2022 when the Fed started its rate hiking cycle. Higher rates have always been the blunt tool that cools investor enthusiasm. Today, however, the Fed's forward guidance implies the next move is more likely to be a cut rather than a hike. Expectations for rate cuts later this year have grown, with several Fed governors publicly signalling support for this path. In our view, this dynamic could add more fuel to the fire before it is eventually contained.

While we recognise that broad market valuations are no longer cheap, the Trump administration's laissez-faire approach to regulation could easily help inflate a stock market bubble. We see this already in efforts to dismantle the Consumer Financial Protection Bureau, the pardoning of crypto founders convicted of fraud, the proposed disbanding of the Public Company Accounting Oversight Board, the relaxation of post-GFC leverage rules for banks, and the president's unabashed willingness to promote his own financial ventures, including TrumpCoin, his mobile phone company, and TruthSocial.

Looking ahead, we believe several factors could further extend this cycle: (i) the appointment of a rate-cutting Fed chair midway through next year, (ii) the resolution of most major trade deals by Labour Day, (iii) the stimulative effect of the Republican bipartisan "One Big Beautiful Bill," and (iv) the administration's encouragement of promotional corporate activity. Collectively, these factors could create fertile ground for both economic growth and equity market exuberance.

Having survived a major test, we believe we are likely at the early stages of a new speculative bubble. In this environment, we remain focused on owning businesses that are still trading cheaply relative to their earnings growth potential. In future research notes, we will share more detail on the stocks we have identified that fit this profile.

Kind Regards,

Fawkes Capital Management

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