REYL OVERSEAS
Intesa Sanpaolo Group

STRATEGY OUTLOOK

SEPTEMBER 2026

Bessent, Bonds and the New Fiscal Reality.

August is supposed to be a sleepy month, when most of Europe goes on holiday and nothing of note happens. The headlines splashed across CNBC point to another month of strong gains across global bourses. Beneath the surface, however, there is a lot more going on. Forget the Federal Reserve for a moment. All eyes should be on Scott Bessent, who is trying to walk the tightrope of financing a growing and undisciplined US deficit while also keeping the bond market stable. **No mean feat, and we cannot overstate the importance of the bond market today.**

Away from the moving and shaking of Mr. Bessent, Energy (+7.4%), Tech (+6.2%) and Health Care (+4.9%) led returns, the Strait of Hormuz remains an unfinished issue, and European inflation picked up again.

	August	YTD
S&P	2.6%	12.3%
Rest of the World	2%	11.9%
US Treasury	0.1%	-0.4%
Gold	9.7%	2.7%
Bitcoin	24%	-10%
WTI Crude	2%	50%
USD Index	-0.5%	1.1%

We've highlighted the elephant in the room for months. Since the GFC, and then Covid, the trend has been to spend. The result is deficits that have ballooned at a time when, in theory, countries should be closer to surplus given the economic expansion. Recessions are the time to support the private sector and spend. Japan is the canary in the coal mine, having seen both its currency and bonds punished. This is a story **of slow but steady degradation in government finances** and, in turn, market credibility in bond markets and currencies. The parallels with other periods of fiscal stress throughout history are becoming harder to ignore.

Recently, we have seen swap lines arranged with the Middle East and Japan to provide funding — or, more accurately, to allow access to US dollars without forcing Treasury bond sales that would push yields higher, destabilize the bond market and increase the US government's interest expense. US true interest expense (including health, Social Security) is now around 105% of receipts, growing at 7.5%, while receipts are growing at only 4%. This month, Bessent's US Treasury doubled the size of its long-end bond buybacks, the day after the 30-year yield hit a 19-year high of 5.33% (see graph). **These extra dollars are tiny, but the**

signal is huge. Bessent is playing Mr. Bond: nothing will be shaken on his watch. The market has effectively been told where the Maginot line is for long-end bond yields.

This is needed to fund hyperscaler capex alongside government debt. The party must continue on both sides of the balance sheet; **it is simply now too big to fail**. This is not yet QE or yield curve control in the traditional sense, but it is another clear sign that the Treasury is responding. It is worth considering that hedge funds now own 8.5% of the entire Treasury market, more than China, Japan and Saudi official holdings combined. Hedge funds use leverage, and therefore stable collateral in the form of Treasuries is sacrosanct. Markets responded to the buyback news with Bitcoin and gold leading, while stocks pushed higher. The US dollar fell as yields rallied.

These are small but meaningful pieces of the jigsaw. We expect increasing support for fragile bond markets as governments juggle the old problem of excess debt with the new demands of AI capex. A huge unknown is how AI productivity gains collide with the debt-based monetary system of today. **In this environment, we remain steadfast bulls on gold, silver and Bitcoin.**

In another small twist, these changes are playing out over years rather than days. There has been public criticism from many quarters, but of most interest was a WSJ article from Stanley Druckenmiller. Druckenmiller was Bessent's mentor when they worked together at Soros Fund Management in the early 1990s, when the Soros team famously shorted the British pound, netting circa $1.5bn. Druckenmiller's quote is:

"I have spent five decades trading on a simple premise: markets aggregate information no committee possesses, and prices are how that information reaches decision-makers. **The long-term Treasury yield is the most important price in the world. It is also the only fiscal disciplinarian the US has left. Neither party will run on entitlement reform**."

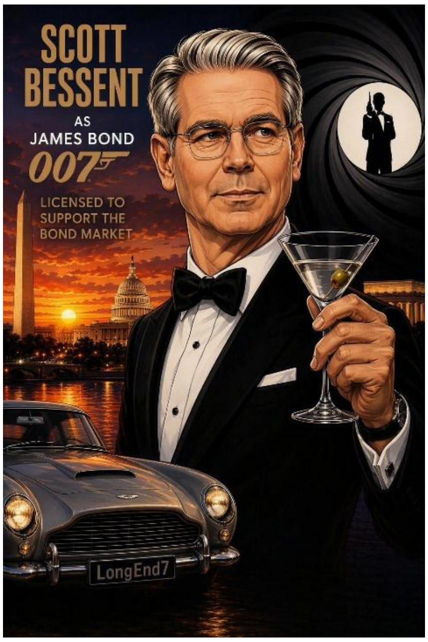
This is a high-stakes game where the house has very limited options. It will continue to play out, and we will accumulate yet more supporting evidence. Again, we remain proponents of assets with finite supply. Running it hot and debasing currencies is likely to continue. Over the last five years, the total return from the S&P 500 has been 84% yet measured in gold terms rather than US dollars it has been -27%.

We remain bullish on oil for a few reasons. Most importantly, it works as a diversifier in portfolios. It also remains unloved in a world where the Strait of Hormuz is unsettled and growth remains strong, with expanding energy needs. Energy earnings are forecast to decline next year by 11%, which we do not believe will be the case. Historically, oil has often performed well in environments where precious metals are moving higher.

Portfolio positioning and conclusions

Our conclusion is that the private sector is performing strongly. Earnings estimates are rising sharply, revisions are positive, bank lending is increasing, albeit still at single-digit growth, and stock market performance is broadening. Bullishness among institutional investors is near peak levels, while the Strait of Hormuz and the midterms remain unfinished business and could still

prove to be headwinds. This is not yet a market where everything is well priced and there are pockets of value dotted around, from energy to consumer stocks to China.



Within this industrial revolution, we are still early. AI on our phones is just the start. AI agents will increasingly manage and control areas of business and life. Crypto is building the infrastructure to transact, establish ownership, verify identity and operate within defined limits. **However, AI productivity gains will hit, and job losses are going to become the ultimate political hot potato and a huge headwind for society.**

We remain invested in our long-term themes: energy transition, digitalisation, hard money, changing demographics and indebtedness. We want to add gold and silver to portfolios, while bonds may continue to struggle and stocks can continue to perform. Volatility is likely into the midterms, but this market has so far proved very resilient year to date.

J. Loudoun

Chief Investment Officer, Reyl Overseas.

CONTACTS

SWITZERLAND

REYL Overseas Ltd
Talstrasse 65
8001 Zurich
T +41 58 717 94 00
F +41 58 717 93 01

www.reyl-ovs.com

DISCLAIMER

This advisory note is provided by REYL Overseas Ltd, an independent affiliate of the REYL Group, duly registered as an independent adviser with the SEC.
The information and data presented in this advisory note are given for informational purposes only and are not to be used as, or considered to be, an offer or solicitation to buy, sell or subscribe to any securities or financial instruments.
This information does not take into consideration the specific investment objectives, financial situation or particular needs of any person that enters into a relationship with REYL Overseas Ltd which must be done by written agreement. The value and income of any securities or financial instruments can go up as well as down. The market value of securities or financial instruments may be affected by changes in economic, financial or political factors, time to maturity, market conditions and volatility, or the credit quality of any issuer or reference issuer.
REYL Overseas Ltd does not render or offer to render personalized investment advice in this advisory note. REYL Overseas Ltd may only transact business or render personalized investment advice in those States where it is registered or where an exemption or exclusion from such registration exists.

Foreign currency rates may have a positive or adverse effect on the value, price or income of any security or related investment. Many factors may affect the value of a financial instrument, and accordingly, investors effectively assume all risks and may receive back less than they had originally invested.

Past performance should not be taken as, and is not, an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by REYL Overseas Ltd regarding future performance.

Any information contained on this advisory note does not constitute the investment policy or strategy of REYL Overseas Ltd or an investment recommendation, but merely the different assumptions, views and analytical methods of those who prepared it. The information, opinions and estimates expressed in this advisory note reflect a judgment as of its original publication date and are subject to change without notice.

Proprietary papers and writings are the opinion of REYL Overseas Ltd. Other articles, links, and information contained herein are obtained from sources REYL Overseas Ltd believed to be reliable. Although all reasonable care was taken in gathering the information and formulating the opinions contained herein, REYL Overseas Ltd does not make any representation whatsoever as to its accuracy or completeness. Accordingly, REYL Overseas Ltd accepts no liability for any loss arising from the use of this note, which is made available for information purposes only.

This advisory note is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Clients should consult their adviser with regard to any questions they may have. Please be aware that there are risks associated with all investments and investment strategies.