Annual Letter 2025

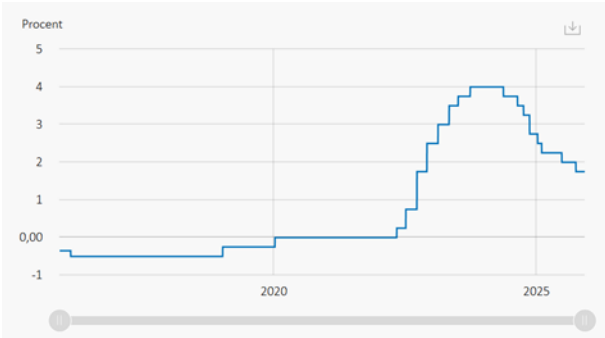
January 2026, Kuylenstierna & Skog

KUYLENSTIERNA & SKOG S.A.
ASSETMANAGEMENT

The Market Year 2025

Beginning of the Year – Optimism and Political Uncertainty

The year began with a relatively positive market sentiment. Inflation continued to decline and expectations of interest rate cuts supported risk appetite. At the same time, the start of the year was marked by Donald Trump's return as President of the United States, accompanied by extensive political statements and the introduction of – or threats to introduce – trade tariffs against, among others, Mexico, Canada, China, and the EU.



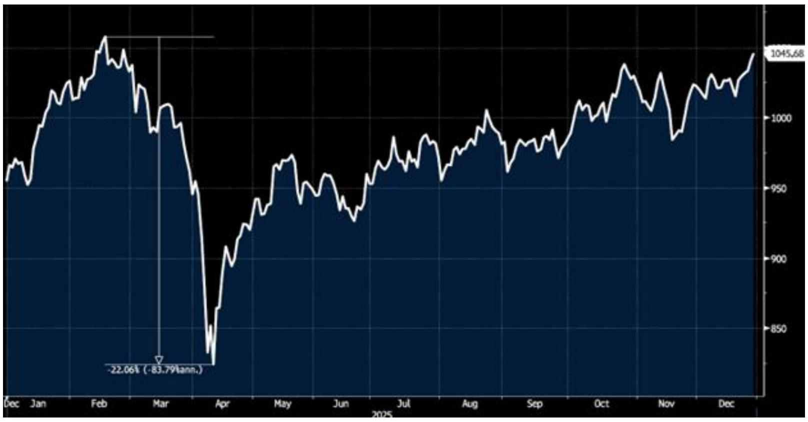
Policy rate Riksbanken

These conflicting signals created uncertainty regarding global trade and economic growth. Despite this, equity markets initially performed strongly, supported by solid corporate earnings and continued strong order intake within the industrial and engineering sectors. The Riksbank and the ECB began the year with interest rate cuts, while the Federal Reserve kept rates unchanged due to persistently high inflation in the United States.

Spring Turning Point – Volatility and Rising Concern

During February and March, the market environment changed dramatically. Signs of a weakening economic outlook combined with more persistent inflationary pressures increased concerns about stagflation. Together with Trump's frequent statements and actual tariff measures, this led to significant market volatility.

In March and April, the trade conflict escalated further as the United States imposed very high tariffs on several trading partners, resulting in sharp equity market declines globally. Government bond yields moved significantly, and concerns about political stability in the United States intensified, not least following Trump's criticism of the Federal Reserve and his questioning of the central bank's independence. When parts of the tariffs were later postponed,



Stockholmsbörsen SAX 2025

markets rebounded quickly – a pattern that recurred several times during the year.

During this period, large portions of the year's earlier equity gains were erased. The Swedish krona strengthened sharply, further affecting returns measured in SEK.

Summer – Geopolitics and Recovery

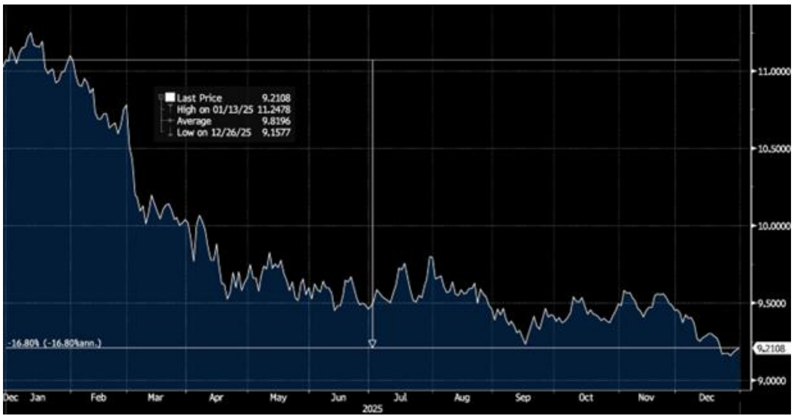
The summer months were characterised by escalating geopolitical tensions, particularly in the Middle East following Israeli attacks on Iran with U.S. involvement. Despite the severity of the situation, market reactions were relatively limited, and risk appetite returned quickly.

At the same time, Europe took clear steps toward increased self-sufficiency in defence and energy. At NATO's summit, member states agreed on significantly increased defence spending, and several European countries – led by Germany – launched extensive stimulus and rearmament programmes. This contributed to strong investor interest in European defence and industrial companies.

The earnings season for the second quarter exceeded expectations. The impact of tariffs and a stronger Swedish krona was less severe than feared, and several major equity markets reached new record highs during late summer.

Autumn – Monetary Policy Shift and Stabilisation

During the autumn, market conditions stabilised further. Focus gradually shifted from geopolitics to corporate earnings and monetary policy. Central banks acted cautiously but in a more accommodative direction.



USDSEK 2025: -16,8%

The Federal Reserve began its rate-cutting cycle, gradually lowering the policy rate to a range of 3.50–3.75 per cent. At the same time, purchases of short-term government securities were resumed to provide liquidity to the financial system. The ECB and the Riksbank left interest rates unchanged toward the end of the year, while inflation in Sweden continued to decline.

Equity markets ended the year relatively stable. No clear "Santa rally" materialised, but risk appetite remained healthy. In commodity markets, oil prices declined, while metal prices continued to rise. Gold prices reached new record levels.

The discussion surrounding a K-shaped economy gained increasing traction, with certain groups benefiting from rising equity markets, higher values of real assets, and greater flexibility, while others experienced a weaker economic development.

The U.S. dollar ended the year approximately 17 per cent weaker against the Swedish krona – a significant move that had a substantial impact on returns, inflation, and future prospects.

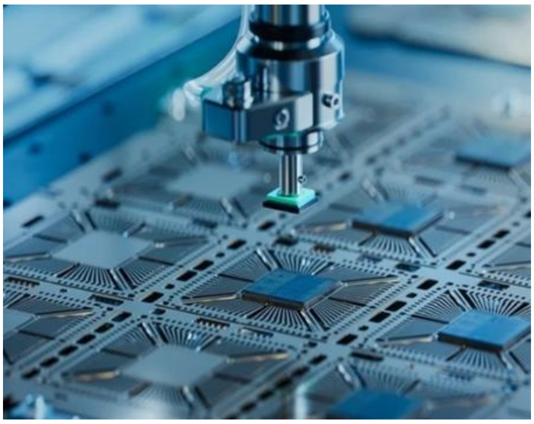
Our Fund – Kuylenstierna & Skog Equities

Kuylenstierna & Skog Equities, Class P, delivered an annual return of +4.0% measured in SEK. Currency exposure was approximately 40% to Swedish kronor, with some exposure to euros but the rest primarily to U.S. dollars. The weakening of the U.S. dollar and the strengthening of the Swedish krona had a negative impact on returns measured in SEK – measured in USD, the fund instead returned +24.8%.

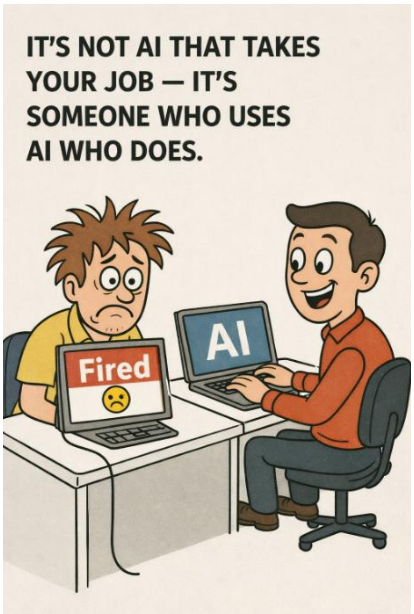
At the beginning of 2025, the fund was invested just over 97% in equities. By year-end, the equity allocation had decreased slightly to just under 96%. Investments in Swedish and U.S. securities each accounted for approximately 40%, while the remaining holdings primarily consisted of European companies and emerging markets.

Outlook for 2026

The market enters 2026 with cautious optimism, despite ongoing wars, geopolitical unpredictability, and major challenges to the global order as we know it. Inflationary pressures have eased, interest rates have declined, and economic expectations are generally positive.



Several structural investment themes remain firmly in place, including the energy transition and electrification, artificial intelligence and technological development, as well as defence and security. Underlying corporate performance will be decisive in an environment where recurring political statements continue to generate uncertainty. Expectations that AI, and the extensive investments currently underway, will begin to bear fruit will be closely monitored. Access to and refinement of rare earth metals may also continue to be a source of conflict.



At a time when major powers seek to reshape the global order, attention will remain focused on the United States and Donald Trump's political actions, which may generate significant volatility. Our hope is that he will be forced to retreat from the most damaging proposals and instead promote a continued globalised world. In the United States, the appointment of a new Federal

Reserve Chair and the midterm elections later in the year are also upcoming. We expect continued rhetoric that may challenge the independence of the Federal Reserve.

In Europe, we are likely to see efforts toward some deregulation and an increased focus on self-sufficiency in energy, technology, and defence. Dependence on the United States needs to be reduced, while the relationship must be maintained. Europe must balance its relations with both China and the United States at a time when the continent faces significant structural challenges in several major EU countries, including France and Germany. Strong overarching leadership would be desirable – perhaps it is not too late for Mario Draghi to assume such a role.

In Sweden, economic conditions appear set to improve, and many Swedish companies are well positioned for the major industrial investments expected in Europe in infrastructure, technology, and defence. National elections are scheduled for the autumn, which may create some political turbulence.

Emerging markets may experience a relatively good year, but we see no permanent resolution to the trade and technology conflict between the United States and China. Uncertainty is likely to persist, and the future will remain unpredictable.

In summary, uncertainty remains elevated, making selectivity and risk management more important than ever. For us at Kuylenstierna & Skog, 2025 has clearly reaffirmed the value of a long-term and disciplined investment strategy. In an environment where markets have often reacted sharply to political statements, we have chosen to focus on prevailing megatrends and corporate fundamentals rather than short-term sentiment.

Finally, we look forward to launching our second fund during the spring – an alternative fund focused on unlisted companies and projects within European infrastructure – something we have long wished to be able offer our clients.

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