CULROSS GLOBAL

Macro Outlook Summary

January 2026

Performance

For 2025, Fund performance numbers were: Culross Global Fund (CGLO): USD +9.24% & Culross Absolute Defensive Fund (CADF): USD +10.31%.

In the world of benchmarking there are numerous alternative investment index providers like Hedge Fund Research (HFR), BarclayHedge and WithIntelligence. Amongst a large number of published indices there are Fund of Funds (FOF) indices categorised by volatility and produced by HFR and then also Hedge Fund Industry indices grouped by 'style', sector and size.

Referencing HFR as one of the leading providers, Culross Funds beat the HFRI FOF Low Vol +6.38%, Mkt Defensive +6.15%, Conservative +8.12% and Mid Vol +8.85% indices with a volatility that matched the Low Vol category. The Culross Funds also beat the HFRI Merger Arb, Equity Market Neutral, Special Sits, Absolute Return and Macro Multi-Strat indices which is usually a greater challenge.

The all encompassing HFRI Global HF Index gained +7.14% which always includes a good chunk of directional long exposure. That should have provided a beneficial tail wind to the index given global markets rallied so strongly in 2025, but seemingly it didn't. So for the Culross Absolute Defensive Fund which take zero directional market exposure and the Culross Global Fund which take a very small amount directional market exposure the returns were entirely dependent on manager driven outcomes and this was an excellent year from our underlying managers.

The community of funds marking their 25th Anniversary of public audited performance and managed by the same person is small. Both Culross Funds are in this group. Limiting the downside while allowing the upside to deliver returns is captured by the Sharpe Ratio where a ratio greater than 1.0 is good but hard to achieve particularly over long periods of time living through multiple market shocks. In 25 years both Culross Funds have lived through and profited through at least four major global market shocks. As a result the Sharpe Ratio for CADF is 1.55 and CGLO 1.21 versus the HFRI FoF Composite Index 0.75 and MSCI 0.27 respectively.

Outlook

Rising global liquidity propels financial markets higher. Financial leverage adds to this effect. For decades the JPY has been the go-to currency for leverage financing especially since in terms of Debt-GDP the country has gone from being one of the strongest G7 credits in the 1980s to one of the weakest now. That swing from 45% to 230% steadily weakened the JPY which added to the attractiveness of JPY financing already priced at ultra low rates.

Japan's insurance companies and pension funds didn't miss the point and diversified massive quantities of capital into foreign bond and equity markets to great advantage, capturing not only higher bond yields and equity returns but also additional profits from persistent FX gains. The Yen at 160 to the USD is cheap and has helped import inflation which now runs at 2.5% having two years ago been trapped in deflation. Rising debt, a weakening currency and rising inflation is a dangerous direction of travel, but a turning point may now be in sight. Food price rises have been persistent with rice prices spiking 100% this year and this has become a blue touch paper for domestic politics which PM Sanae Takaichi has said she will solve by removing the consumption tax on food.

The $-Yen rate of 160 seems to be a line in the sand for the Japanese authorities and last week rumours were that not only the BoJ but also the US Fed were poised to intervene. It is well understood that the US wants a weaker dollar and that includes against the Yen.

The second correction has been in the Japan Govt bond market where JGB yields have risen from the dead. 10Yr yields are now 2.25%, up from 1% just over a year ago. 30Yr bonds, essential instruments for pension funds and insurance companies, have seen yields rise to touch 3.75%. Japan is the world's third largest creditor nation with a Net International Investments Position of $3.7Tr (CEIC data) and estimated gross foreign assets of $5Tr split equally between bonds and equities mostly invested in US Treasuries and equities.

It is easy to see that if the Yen begins to strengthen even just gradually then returns from foreign markets will be significantly impaired while domestic bond returns become increasingly attractive. Japan's pension leaders have publicly noted this point and most likely the tidal flow of reshoring capital has already begun.

This helps Japan Inc, underpins JGB prices and keeps the Yen gradually rising. For the rest of the world this is not good as foreign bonds and equities will be liquidated as Japanese capital quietly quits their markets. US Treasuries will see selling. Japanese pension funds and insurance companies epitomise the careful and measured investor and will move slowly. But their scale is colossal and they move in convoy, so the change if it gains momentum will be felt across global markets without question and to everyone's detriment except Japan.

Japan is not alone. Germany owns a slightly greater amount of foreign assets and the investment maths with a rising Euro is the same. In 2025 the SPX gained 16% while the EUR-USD rate lost 14%. So, for European investors there was a net +2% gain from the S&P index which was a terrible return versus the DAX +23%. A weak dollar helps stimulate US export demand but the US economy is relatively closed.

So a weaker dollar does not usually stimulate US growth significantly. It does however cheapen the cost of raw materials and energy for the rest of the world because commodity prices are denominated in dollars so this makes energy and raw material input prices cheaper which is reflationary. But back to the capital flow effects of a weakening dollar policy, capital can only be re-shored by those that have it and on this count the US is not in a good position.

The US has an estimated negative NIIP of -$27Tr which dwarfs everything else and underscores how dependent the US is on foreign investor confidence and goodwill. As this reallocation of capital plays out and the dollar weakens, the benefits for the rest of the world and emerging markets in particular are considerable. The benefits to the US are hard to see.