OMBA Advisory & Investments Ltd

2024 Overview & 2025 Outlook

The Bull vs The Bear

January 2025

INTRODUCTION

Last year prolonged the strong equity rally that started in 2023. The dire 2022 performance, triggered by global central bank hikes, seems long forgotten. But can this stock market rally continue even further? Below are the key issues for 2025, that most of our clients, contacts and counterparties seem to have in their focus:

- Whether or not the US stock market, particularly the large cap "magnificent 7" stocks, can continue to shine.
- Whether China's monetary and fiscal stimulus announced in 2024, and low valuations, present an opportunity for investors for the year(s) ahead.
- Whether or not owning European equities, which trade at a significant discount to US equities, is the right decision given Europe's anaemic growth.
- Whether or not interest rates in the US, EU and UK will continue to decline in the year ahead. In the latter period of 2024 markets repriced expectations of rate cuts to fewer and commentators are already hinting at potential for no cuts, particularly in the US.
- The Trump administration's impact on global trade and markets. Numerous scenarios have been painted, and outcomes are highly uncertain.

This year we have decided to summarise a Bullish and Bearish argument for various regions/ countries to put forward both sides of the coin. We conclude with our thoughts on the outlook - keeping in mind that investing involves risk and to generate returns above inflation investors must bear some risk. How one positions portfolios is a function of expected returns AND risk. Risks are impacted by valuations, geopolitics and macro-economics and our positioning for the year ahead reflects our interpretation of these. Past performance is not indicative of future returns, and we remind investors that just because a particular country or sector has performed well does not guarantee a continuation of that trend. Humans tend to have recency bias, and many investors and clients tend to gravitate to US equities which have had stellar recent (last 15 years) performance. The key question is whether this can be repeated over the next few years.

BULL vs BEAR

UNITED STATES

S&P500: 2024 ⬆25.0 % 2023⬆26.3 % 2022⬇18.1%

US equity valuations appear extended when looking at index level Forward Price to Earnings for the S&P500. However, valuations at the index level have been skewed by a few names, particularly the Mega-Cap names including many of the "Manificent-7". If the top 8 counters are excluded from the S&P500 Index, the Forward Earnings multiple would be a more modest 19.5x. See below.

Ticker	Security Name	Sector	Industry	Price	Weight	NTM P/E multiple
AAPL	Apple Inc.	Information Technology	Technology Hardware Storage and Peripherals	237.87	7.1%	32.2
NVDA	NVIDIA Corporation	Information Technology	Semiconductors and Semiconductor Equipment	136.24	6.5%	34.6
MSFT	Microsoft Corporation	Information Technology	Software	426.31	6.2%	32.3
AMZN	Amazon.com Inc.	Consumer Discretionary	Broadline Retail	223.35	4.1%	38.1
META	Meta Platforms Inc.	Communication Services	Interactive Media and Services	617.12	2.6%	25.3
GOOGL	Alphabet Inc.	Communication Services	Interactive Media and Services	195.55	2.2%	22.8
TSLA	Tesla Inc.	Consumer Discretionary	Automobiles	428.22	2.2%	137.7
AVGO	Broadcom Inc.	Information Technology	Semiconductors and Semiconductor Equipment	228	2.1%	35.9
GOOG	Alphabet Inc.	Communication Services	Interactive Media and Services	196.98	1.8%	22.8
			Above companies as an index by themselves:			**32.8**
			Remaining S&P500 companies as an index			**19.5**
			Equal-weight S&P500 index			**17.9**

Furthermore, many market participants look to the Shiller Cape (Cyclically Adjusted) PE (or CAPE ratio) as a guide to future stock market performance.

As shown on the next page there is little statistical evidence that this ratio predicts the next 1-year returns.

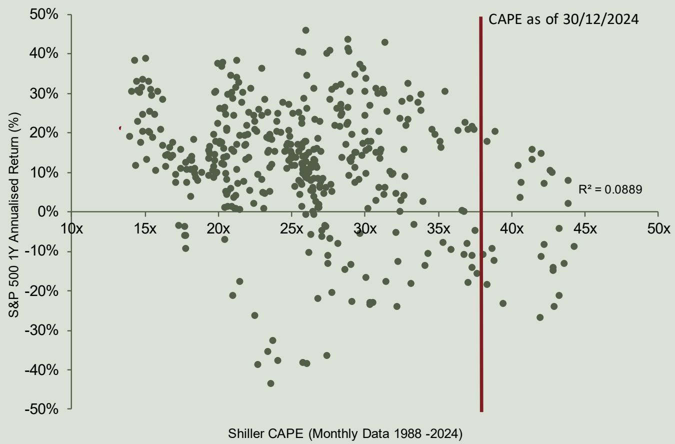
Counter to what we discuss under the bull case it could be argued that one should pay attention to US valuations, certainly in the medium to longer term. Although the CAPE ratio is not a good predictor of 12-month returns (or any short-term period for that matter), over longer periods it is a good guide to future expected returns. In their 2017 paper The Many Colours of CAPE, Robert Shiller and Farouk Jivraj found that the CAPE 10 (i.e.10-year) was a better predictor than many other metrics.

Q1 1926 – Q2 2017					
Starting CAPE Ratio			Real 10-year S&P 500 Annualized Returns (%)		
Average	Low	High	Average	Worst	Best
8.6	5.6	9.6	9.8	4.2	17.2
10.3	9.6	11	10.6	3.8	16.9
11.5	10	12.1	10	2.6	14.7
13	12	14.1	8.7	0.7	14.1
15	13.9	16.1	7.8	-1.6	15
17	16.1	17.8	6.8	-3.8	14
18.7	17.9	20.1	5.5	-4.4	13.5
21	19.9	22	2.7	-3.3	12.3
24.1	22	26.4	2.5	-4	7.3
33.2	26.4	44.2	0.9	-6.1	5.8

- When the CAPE ratio was above 26.4, 10-year-forward real returns averaged just 0.9% —just 0.5% above the long-term real return on the risk-free benchmark, one-month Treasury bills.

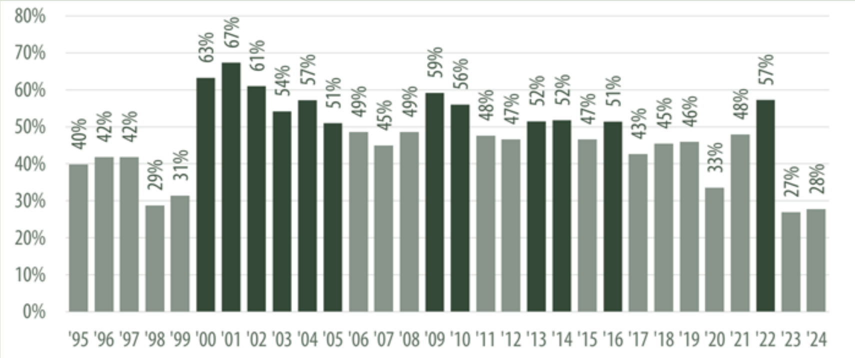
UNITED STATES

S&P 500 Shiller CAPE vs subsequent calendar-year total return



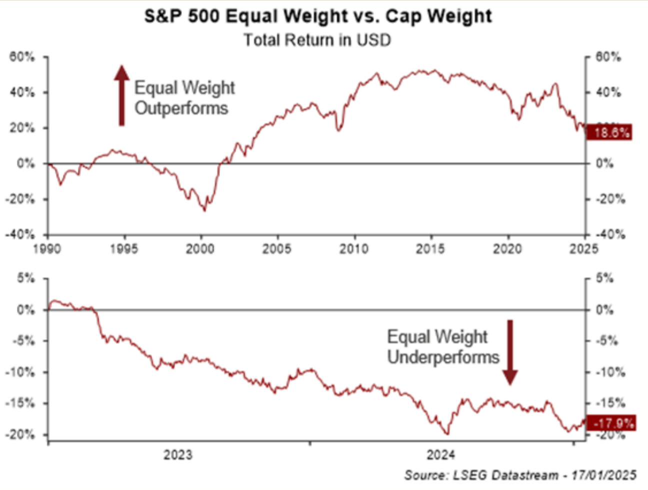
An additional point to consider is that most stocks have underperformed the broader S&P500 Index, and the forward multiple of the equal-weight S&P500 has diverged sharply from its cap-weighted peer (i.e. meaningfully lower).

Percentage of S&P 500 Index Members Outperforming the Index



The best 10-year-forward real return was 5.8%, and the worst 10-year-forward real return was -6.1%. The range between the best and worst outcomes was a difference of 11.9% in real returns.

- One could argue that the historical data set used in this analysis is flawed due to regime change and the recent period (post the internet and increased globalisation) reflects a completely different environment. We'll let the academics argue that point but expectations about longer-term future US returns should no doubt be tempered based on higher valuations.
- Looking at long term performance of the Equal Weighted S&P500 compared to the better known and referenced Capitalisation Weighted S&P500 it can be seen that the equal weighted index has outperformed, with recent divergence between the two quite extreme. Many argue, and we'd be in that camp, that now might be the time to rotate from Capitalisation Weighted to Equal Weighted.



UNITED STATES

The world is arguably entering a new industrial revolution led by AI, which could result in a productivity boom akin to (or exceeding) the advent of the internet. The US is undoubtedly leading the way here, has embraced this change and possesses the leading companies to drive and benefit from this development globally. By contrast, the EU – for example – has focused its efforts on regulating AI rather than encouraging innovation. While aggregate valuations for the S&P500 are high, this is heavily skewed by less than 10 companies, most of which likely have the growth outlook and market position to justify their lofty valuations.

Notwithstanding the attraction of the AI investment & productivity boom "story", any earnings misses will be met with punishment given market positioning, investor sentiment and growth expectations embedded in current multiples. In the context of the tech heavyweight "AI players", sources of earnings misses could range from dollar strength (translating foreign revenues back to dollars) to a short-term mismatch between incremental revenues generated by new AI technologies and the depreciation charges that are likely to flow from such AI infrastructure investment (e.g. Meta flagged rising infrastructure costs into FY25 as capex and depreciation rise). Many will recall the internet boom of the 90's, which resulted in adoption of new technologies which revolutionised our lives, but there are many skeletons from the internet "boom" and "bust" in the form of businesses built on hype that failed to find product-market fit and successful monetisation.

The US system (not only Congress) has enough checks and balances to ensure that despite rhetoric and intention from the Trump administration to institute policies which might be damaging to the economy it is unlikely US dominance on the global arena and economically will be derailed.

As stated in the famous book Democracy in America by Alexis de Tocqueville in 1835, *"The great privilege of the Americans does not simply consist in their being more enlightened than other nations, but in their being able to repair the faults they may commit".*

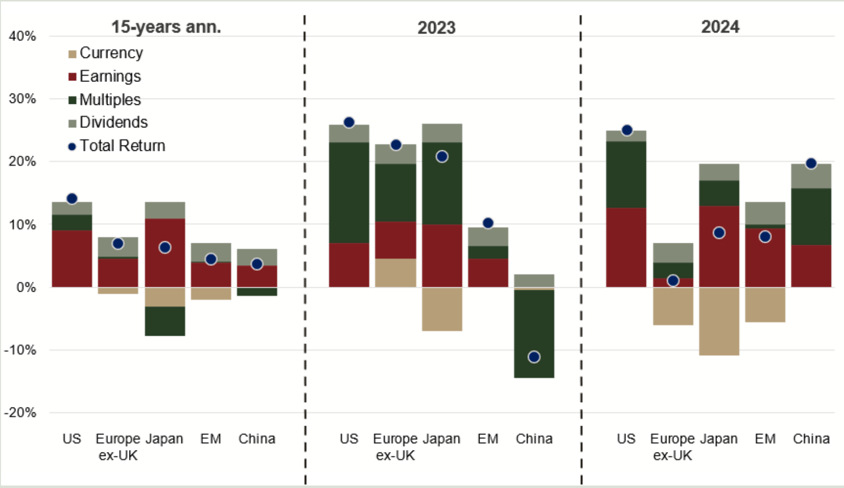
As discussed in detail by many market practitioners and modelled in detail by many academics including the Peterson Institute for International Economics Trump's proposed policies on immigration, tax, tariffs and meddling with a currently independent Federal Reserve will be inflationary and ultimately damage the US economy due to numerous feedback loops. If Trump's administration goes too far, the consequences for the US economy and concomitantly US equities and fixed income could be dire. A four-year term is unlikely to derail the US dominance, but it could be a bumpy ride.

UNITED STATES

US bulls argue that stronger earnings growth in the US justifies higher multiples. But it is not just stronger earnings growth, the US also has: 1) higher quality global franchises; 2) a more flexible labour market; 3) a more entrepreneurial environment; 4) US corporates tend to be better at managing margins / flexing cost structures rapidly to changes in environment etc. - thus this earnings growth can continue. In the recent years of the US bull run post Covid-19's contraction, US earnings have been strong and far superior to other Western economies and this will continue due to the US superiority in R&D, its geography, strong capital markets, world class Universities and the points mentioned above.

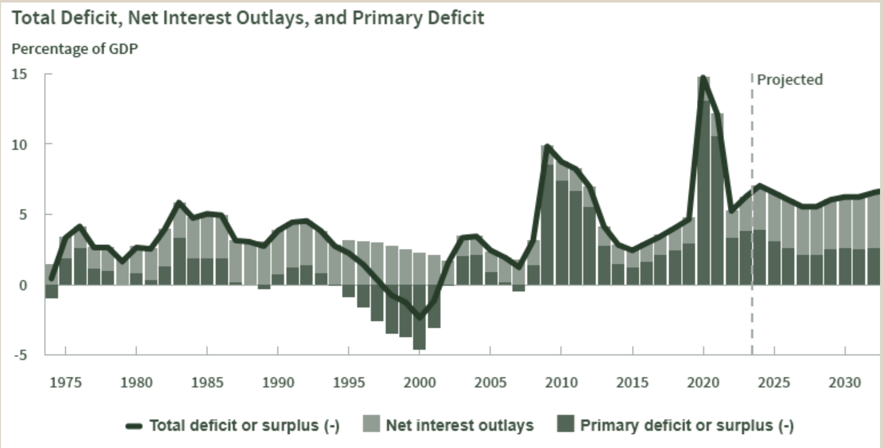
Sources of Global Equity Returns

Total Return, USD



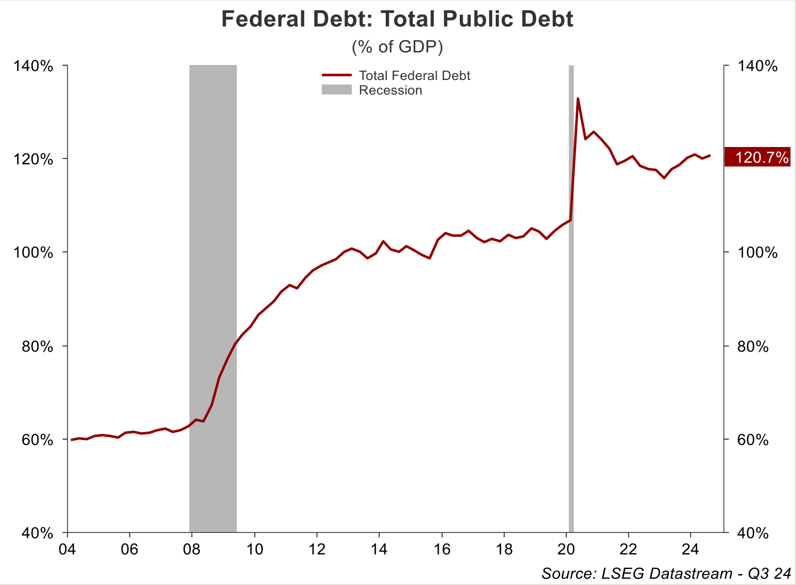
Source: Factset, MSCI, Standard & Poor's, J.P Morgan Asset Management 31/12/2024

US debt to GDP has risen from 63% in Q4-2007 (i.e. prior to onset of Global Financial Crisis) to 120% today, with a significant increase occurring since the Covid-19 pandemic (due to associated Federal stimulus spending). This has been one of the contributing factors to stronger earnings growth in the US. Monetary policy comparisons between the US and Europe would show many similarities; very low interest rates post the Global Financial Crisis and quantitative easing programmes, followed by 2022 rate hikes to curb inflation. Fiscal policy, however, has been starkly different. This remains one of the big unknowns – is US fiscal expansion sustainable? If not, then the fiscally led boost the US has enjoyed might fade or decline significantly.



Source: Congressional Budget Office

UNITED STATES



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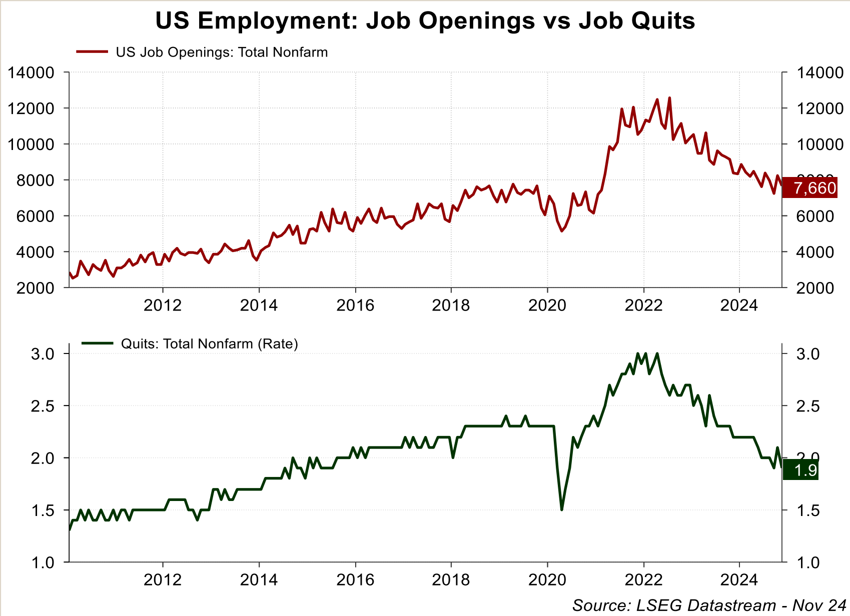
UNITED STATES

US employment data has been surprisingly resilient and particularly strong post the Covid-19 period. The unemployment rate was 4.1% for December 2024 having come down from a peak of 14.8% in April 2020. This has been supported by lower net immigration flows since the 2023 surge. High and rising unemployment rates would be indicative of a looming or current recession, and with levels so low the US economy, driven in the main by its consumer remains robust.

Despite low unemployment levels in the US, the labour market has been softening. The quits rate has declined year on year (suggesting that workers are keener to hunker down and keep their job than risk quitting and not finding a new one). Furthermore, layoffs increased year over year indicating that companies are reducing headcount. The non-farm job openings level has also declined steadily from a peak in March 2022, highlighting that less hiring is taking place. All these measures show signs of a gradual labour market slowdown



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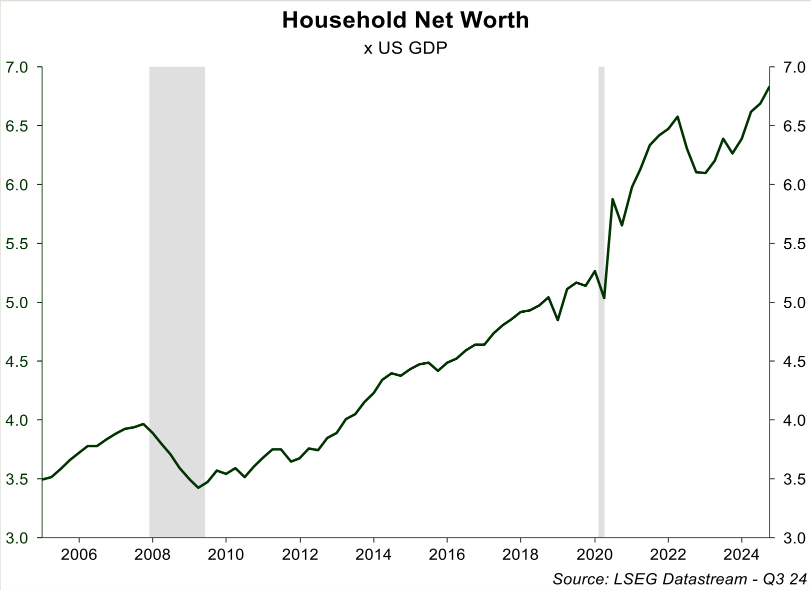
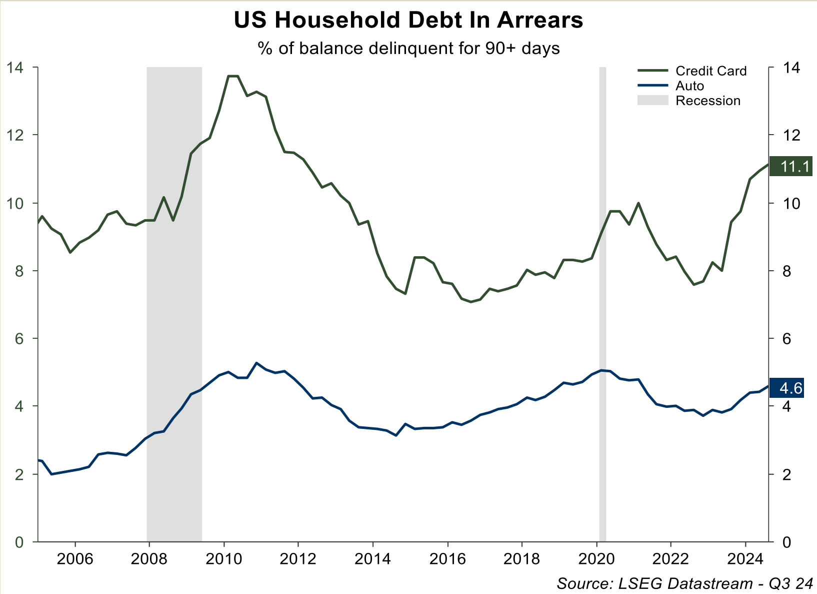
UNITED STATES

Many US bulls look to another important aspect with respect to the US consumer, being household balance sheets. US households have been accumulating wealth at an impressive rate thanks to a strong US economic climate and strong stock market performance. This should keep US households in a comfortable consumption mode and the US consumer could be a long way from rolling over. Also, very different to the Global Financial Crisis period, households are servicing their mortgages despite higher long term mortgage rates due to the fact that households are not refinancing at the current high mortgage rates and lending standards have been substantially improved.



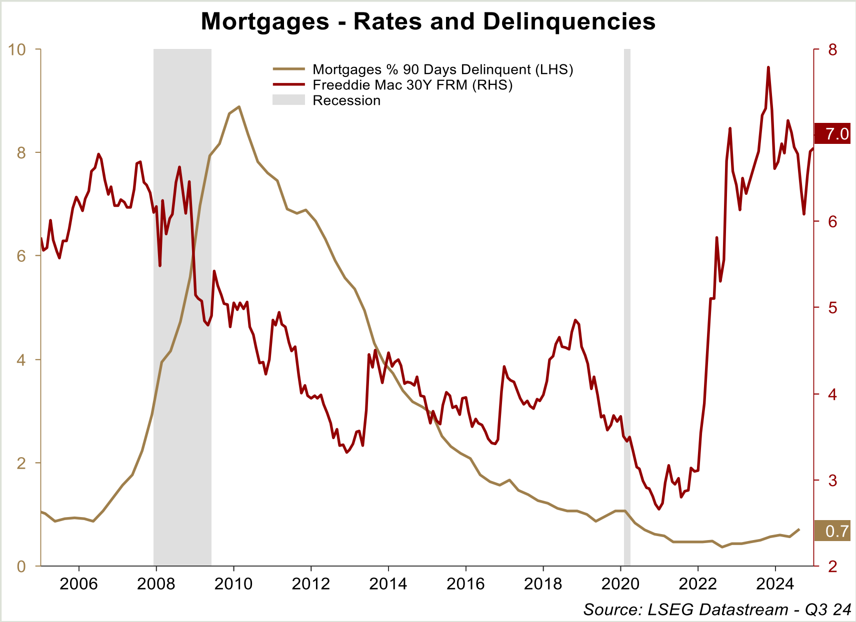
Source: LSEG Datastream - Q3 24

The bears would argue that the US consumer is looking vulnerable for several reasons including 1) increased credit card and motor vehicle delinquencies 2) substantially lower savings rates and moderating wage growth, against 3) inflation rates that remain slightly above the central bank target. All this points to declining real disposable income available for consumption. Should credit conditions remain tight, for example as a result of the Federal Reserve keeping policy rates close to the current level, US consumers might have to cut down on discretionary spending with a knock on to company earnings.



Source: LSEG Datastream - Q3 24

UNITED STATES

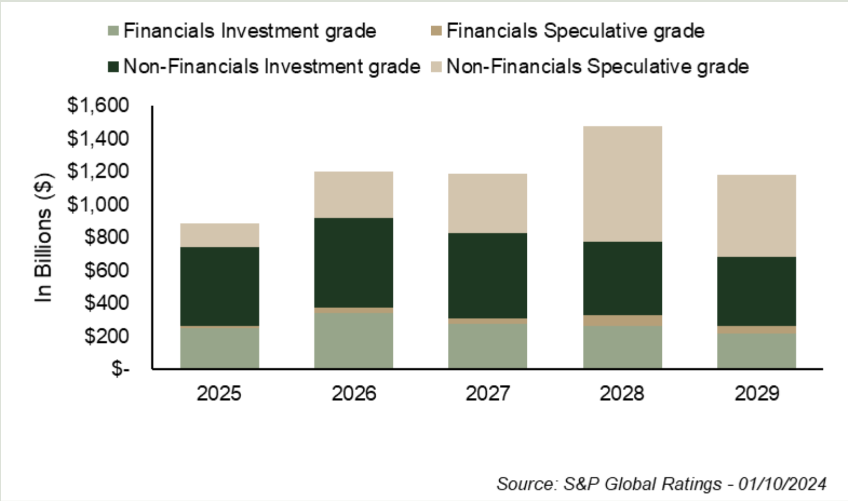


UNITED STATES

US debt markets have remained robust despite higher levels of base rates. Overall (excluding the lowest quality sub-investment grade issuers), US firms have comfortably refinanced themselves despite higher rates. Credit spreads remain tight, indicating a willingness of investors to take on credit risk and chase yields above treasury rates. These tight spreads have meant that although there has been tightening of base rates from the Fed, refinancing costs for better credit quality companies have not been burdensome.

Furthermore, there is also no imminent refinancing cliff for investment grade or sub-investment grade issuers, with maturities spread out over several years.

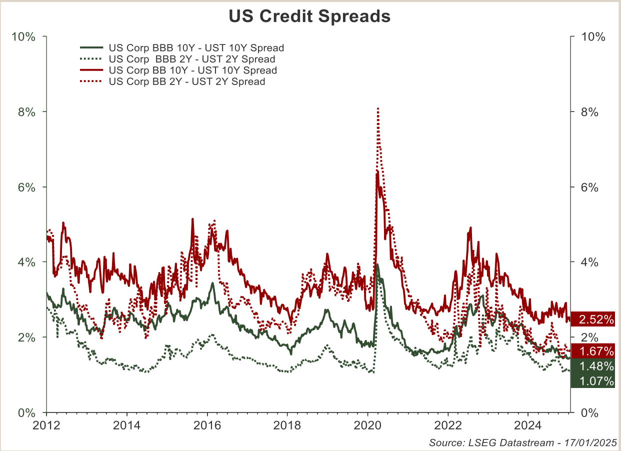
US Corporate Debt Maturity Schedule



Note: Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Excludes debt instruments that do not have a global scale rating.

The bear case for credit markets is that delinquencies have been rising. If this trend continues, spreads could widen, financing costs will increase for issuers and earnings will suffer. A major default from an Investment Grade issuer could cause broader financial conditions to tighten with the effect reverberating into equities.

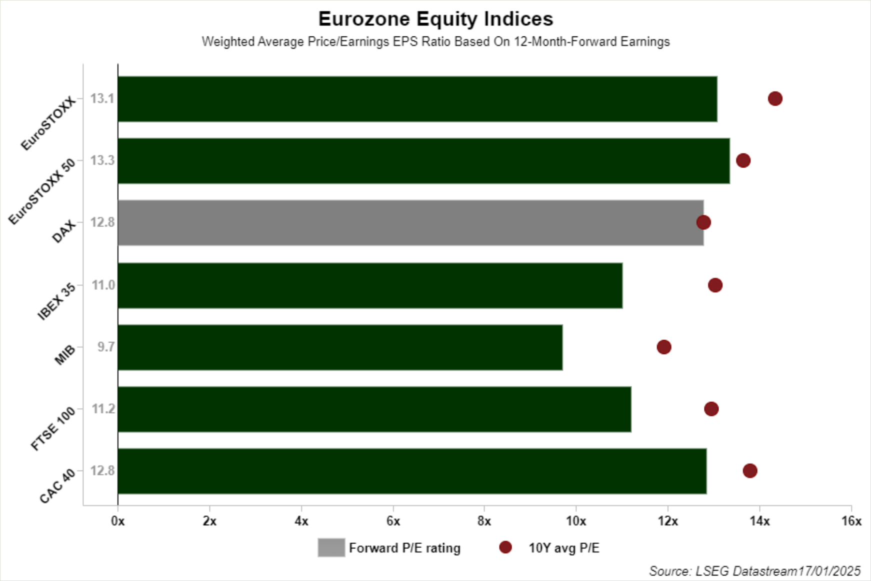
For many, the scepticism over the ability of spreads to remain within their recent range is informed by the experience of the post-Global Financial Crisis period. In 2014, Investment Grade spreads only remained below 100bp for five months before sharply retracing to ~200bps by Q1 2016. Comparable short-lived episodes of tight spreads existed in 2018 and then 2021. There are examples where USD IG and HY spreads broke below 100bp and 350bp, respectively, for a sustained period for example the 2004-2007 episode which lasted more than three years but ended with the Global Financial Crisis.



EUROPE

Stoxx600 ($ return): 2024 ⬆ 2.6 % 2023 ⬆ 20.6 % 2022 ⬇ 15.7%

European equities trade at significantly lower valuation multiples than the US (about a 40% discount when comparing the Eurostoxx600 to the S&P500). Many value investors have been gravitating towards European stocks in recent quarters, with valuations attractive because expectations are so low. Expectations of earnings growth centre around the 2% mark following poor GDP growth of 0.4% in the Euro Area in Q3 2024 (0.9% YoY) and expectations of GDP growth from most economists are below 1% growth.



Given rising trade and geopolitical tensions, Europe may remain a laggard. Europe has far less energy independence than the US and, as we saw in 2022, the Russia-Ukraine war caused spikes in energy prices exacerbating the inflation issues of the time. The increase in energy costs continues to impact margins meaningfully – especially for industrial companies – and remains a major drag on growth. Middle East tensions and an extended war in Russia-Ukraine could prolong the rise in energy prices with a concomitant knock-on effect on earnings.

Weak import demand from China, particularly for European-made cars, could be an additional drag on European stocks. Even worse, the rising penetration of Chinese-made electric vehicles in European markets could further undermine the European auto industry. These factors, coupled with potential US tariffs applied to European products sold in the US, could mean continued poor earnings delivery from European indices. Europe is more exposed to blanket tariffs from the US than China. In fact, a substantial portion of large European company sales take place outside of Europe particularly in sectors like Chemicals, Healthcare, Food, Beverages and Tabacco, Media, Basic Resources and Technology. Only 40% of Stoxx600 company sales take place in Europe with 25% in the US, 20% in APAC and the remaining 15% in Emerging Markets. Thus, European equities are dependent on global growth.

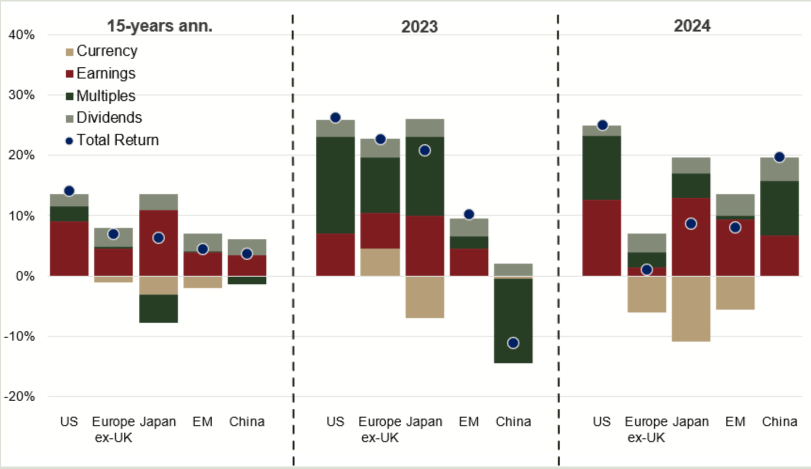
EUROPE

Returns to stock investors come from three sources: Earnings per share growth, dividends and changes in valuation multiples. However, consensus expectations for European stocks are very subdued, including for a low dividend yield of around 3% and little earnings growth. Any surprise to the upside on these variables could spark multiple expansion.

A potential resolution (possibly attributed to the Trump administration's involvement) of the Russia-Ukraine war could be a catalyst for European Equities.

Sources of Global Equity Returns

Total Return, USD

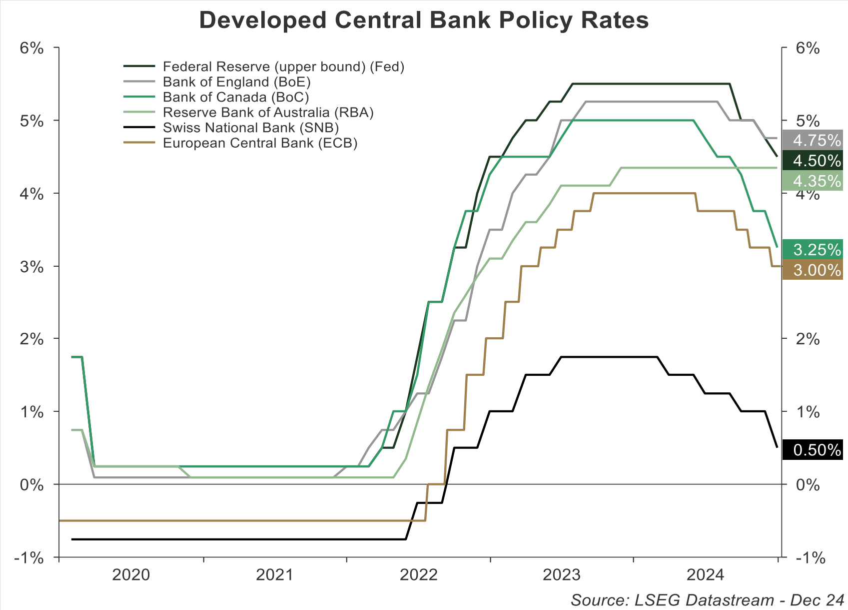


Source: Factset, MSCI, Standard & Poor's, J.P Morgan Asset Management 31/12/2024

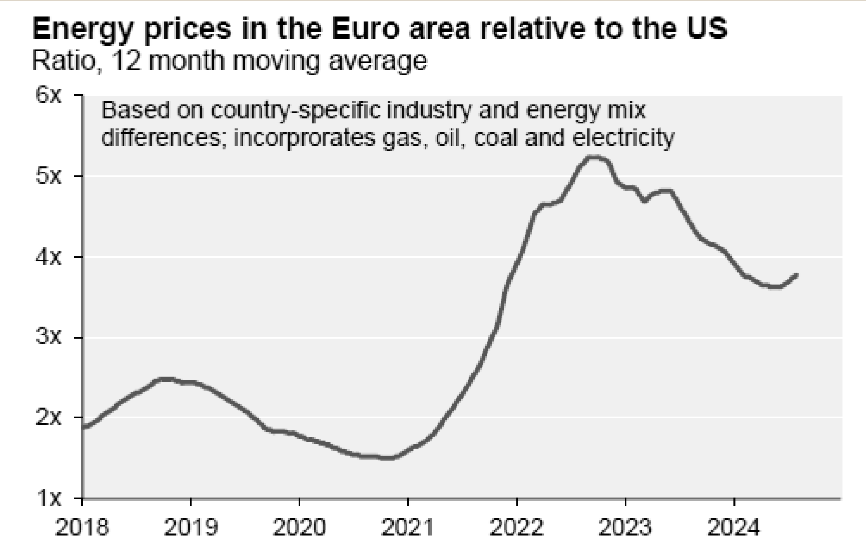
Europe could continue to suffer from China's rising share of global trade volumes. Since 2015, Europe's market share of global export volume has moved downwards - inversely to China which has moved upwards. Western Europe was a beneficiary of the increasing inclusion of Eastern European countries into the EU as labour costs became more competitive for many large industrial businesses. However, labour markets have normalised across the EU and this competitive advantage has waned. China's large labour force and increasing technological prowess has meant they have been the go-to producer for a large swathe of industrial goods.

EUROPE

Monetary policy in Europe is also more accommodative than the US. The ECB cut rates four times in 2024, taking the benchmark rate to 3%. As shown below the ECB and the SNB have lower policy rates than the US, Canada and Australia.



Europe is vulnerable to a spike in energy prices, which could cause a spillover effect into inflation. If inflation in Europe reared its head again, the ECB may need to tighten policy or reign back any expected easing.



Source: ECB Monetary Policy Report, 2024

CHINA

CSI300 ($ return): 2024 ⬆14.9 % 2023 ⬇10.9 % 2022⬇26.5%

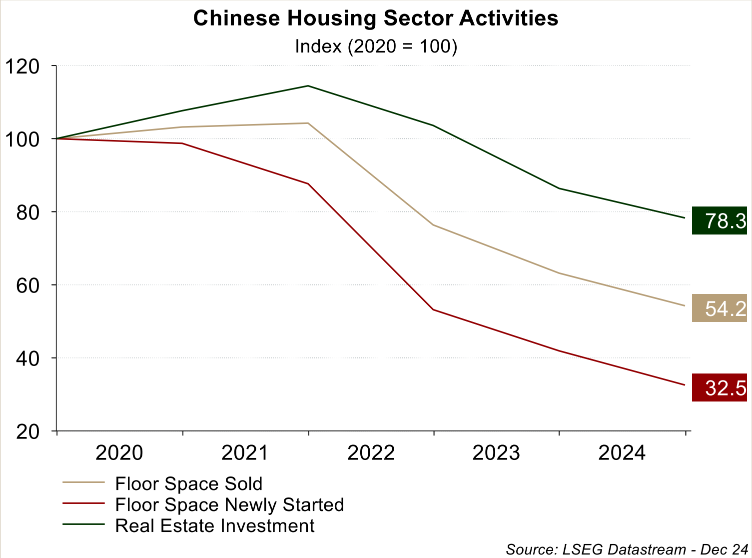
Notwithstanding a recovery in share prices in the latter half of 2024, China's stock markets remain inexpensive compared to many global indices (especially US). For example, KWEB – an ETF comprising China's leading internet and ecommerce companies – now trades at a forward 12x P/E multiple; less than half its pre-2022 rating prior to the CCP's regulatory crackdowns.

For value-oriented investors, this could present an opportunity.

China Valuations vs. Comparable US Companies

Instrument Name	Market Cap USD (bn)	Sector	Revenue Growth NTM	Fwd P/E	Comparable US Company	Revenue Growth NTM	Fwd P/E
Tencent Holdings Ltd	449.9	Social Media	8.9	15.4	Meta Platforms	14.9	26.9
Alibaba Group Holding Ltd	196.1	E-commerce	7.8	9.5	Amazon	10.6	42.8
Meituan	114.8	Food Delivery	16.3	19.7	JustEat	-10.9	-
PDD Holdings Inc	139.2	E-commerce	24.5	8.9	Amazon	10.6	42.8
Baidu Inc	28.3	Search	3.2	8.2	Google	11.7	24.0
NetEase Inc	64.0	Gaming	8.0	14.8	Electronic Arts	5.9	18.2
JD Health International Inc	11.6	Healthcare	12.4	18.5	Walgreens	2.4	8.0
Trip.com Group Ltd	45.0	Travel	15.8	18.4	Booking.com	7.9	26.5
JD.Com Inc	59.9	E-commerce	5.7	8.8	Amazon	10.6	42.8

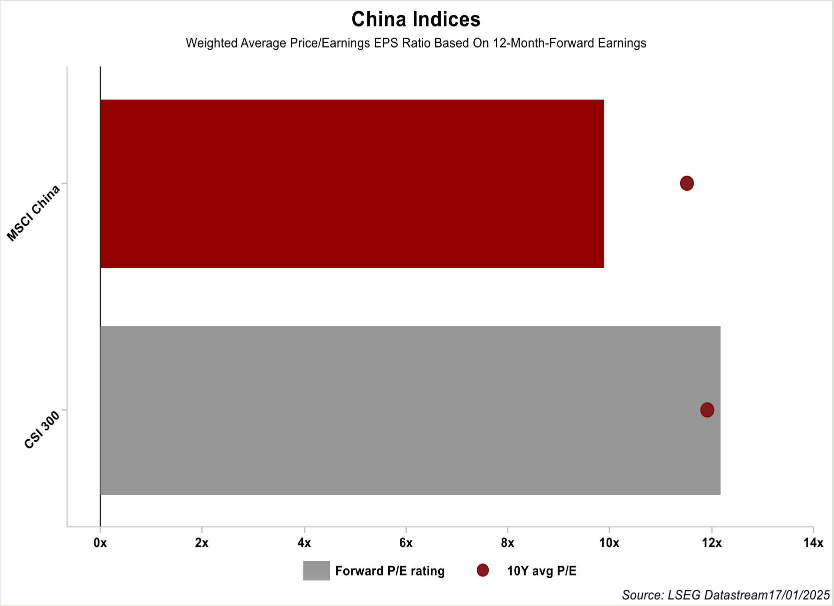
The macro backdrop for China is complicated by a real estate investment "hangover" that could take years to get resolved, and that has depressed consumer sentiment. Most savers in China are disproportionately exposed to real estate. Moreover, the demographic backdrop looks very similar to the position that Japan found itself in – possibly even worse. China's population growth has been declining faster since 2018 than Japan's did since 1991. For example, the share of the ageing population in China at 14.3% in 2023 exceeded Japan's 12.2% in 1990 – and this is while China's per capita GDP remains well-below that of Japan or the US.



Source: LSEG Datastream - Dec 24

CHINA

Two of China's most followed indices, the CSI300 and MSCI China trade at far more attractive valuations versus other countries at around 10x to 12x forward earnings. Compared to their own history they are also better value.



CHINA

China's policy announcements in September showed the government has intent to boost the economy. Numerous monetary and fiscal policies were announced and have been furthered upon since the original announcements, including:

- Property Market: Authorities cut the minimum downpayment ratio for second homes from 25% to 15% across the country, the lowest on record, and also allowed for existing mortgagers to refinance their homes at a lower rate.
- Monetary Policy: a reduction in the reserve requirement ratio (RRR) for banks by 50bps, the second reduction in 2024.
- The PBOC trimmed the 7-day reverse repo rate by 20bps to 1.5%. This rate is used to determine the nation's key lending rates.
- A Rmb300bn re-lending program for corporate buybacks: This is to help listed companies do share buybacks by obtaining the necessary funding.
- Rmb500bn asset swap facility from the PBOC: Qualified non-bank financial institutions with acceptable collateral, notably brokers and insurers, can buy equities at more competitive financing costs.
- A raft of other policy announcements, for example expanding the list of products that people can trade in, such as microwave ovens, dishwashers, rice cookers and water purifiers for which they will receive subsidies for doing so.

Policy announcements alone might not be enough to kick start the consumer in China. China faces many headwinds, including:

- A property market which remains weak. Households need to feel better about their home equity – the "wealth effect" – before increasing consumption.
- China has a high savings rate, which impacts the propensity to consume. This is a cultural phenomenon and may also be influenced by limited access to public services. China's migrant workers are prohibited from accessing public services, such as education and healthcare in the tier-1 and tier-2 cities in which they work until they can demonstrate at least 5 years of residency in those cities. Consequently, many workers leave their families behind in their villages and towns so that their children can attend school. In the meantime, those in need of medical care must bear the expense of returning to their hometowns, often to receive a poorer standard of medical care than they would in their cities of employment.
- Impending tariffs from the Trump administration will be a drag on export growth although it could be argued the numbers are not material as China "only" exports c.14% of total exports to the US and China's currency could weaken further, allowing for them to remain competitive to foreign buyers of Chinese goods. Estimates have been published under different tariff scenarios, with the potential decline in GDP being in the range of -0.5% to -1%.

China is the world's largest exporter and main trading partner of more than 150 countries, so the impact of tariffs is less than many might initially assume.

A greater risk for China is a global (or Western countries) recession and slowdown.

CHINA

Historical criticisms levelled at Chinese equities pertaining to the "lack of true ownership of cash flows" have been diluted by recent growth in share buybacks undertaken by many firms. Share buybacks reached a record high in 2024 and Chinese firms are paying dividends as well as doing buybacks.

Policy announcements alone might not be enough to kick start consumption in China. China faces many headwinds, including:

(1) A growing deflationary threat, possibly linked to the rapidly ageing population. (2) Companies could face a lack of growth opportunities. An increase in share buybacks and dividends, as recently observed in China, is often a sign that companies struggle to identify profitable investment projects. In such a slowing economic climate, returning capital and profits to equity investors is often the easier way to boost the share price, but also indicative of a more mature market.

Some argue that under a Trump administration, tariffs on China and the rhetoric from the US might be softer than originally feared. Trump's actions can differ vastly from what he says, and China is not alone in being singled out in his mercantilist rhetoric. Broadly imposed tariffs could therefore level the field for China. Moreover, Trump's policy approach being "transactional", initial maximalist demands are likely to get watered down by concessions. As the focus on fentanyl shows, China may be able to escape (some) tariffs by focussing on non-trade issues, such as reduced drug production.

The relationship between the US (and other Western Countries) is not only about trade. The US has its tentacles spread across the globe geopolitically and the Trump administration's actions relating to NATO, Russia-Ukraine war, Taiwan, the South China Sea, Middle East, Greenland more recently, and others, could have far reaching consequences due to any retaliatory actions from other states. Our base case would not be for any escalatory actions causing further conflict (if anything, more peace) but these risks shouldn't be ignored.

JAPAN

Nikkei225 ($ Return): 2024 ⬆8.8 % 2023 ⬆22.6 % 2022 ⬇19.1%

Initially, Japanese equities fell following the announcement of Shigeru Ishiba's formal appointment as Prime Minister after a run-off with Sanae Takaichi. Investors had concerns about a reversal of the "Takaichi Trade" – expansionary fiscal policy and commitment to monetary easing. Prime Minister Ishiba has reassuringly indicated that he will continue with the prior administration's economic policies.

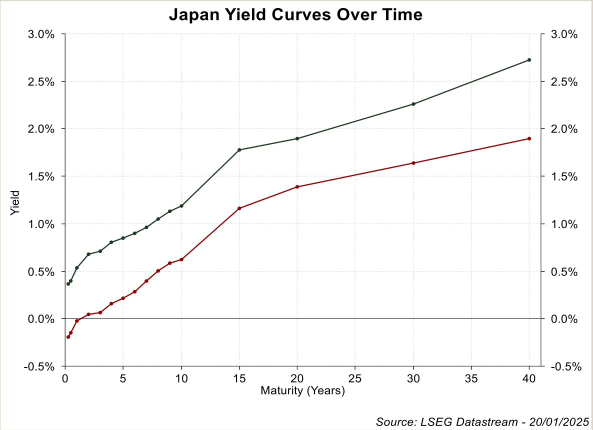
Despite his intention to increase financial capital gains tax, this is unlikely to severely dampen the flow of savings into investments, which has been supported by the renewed NISA (Nippon Individual Savings Account) tax free investment scheme for individuals.

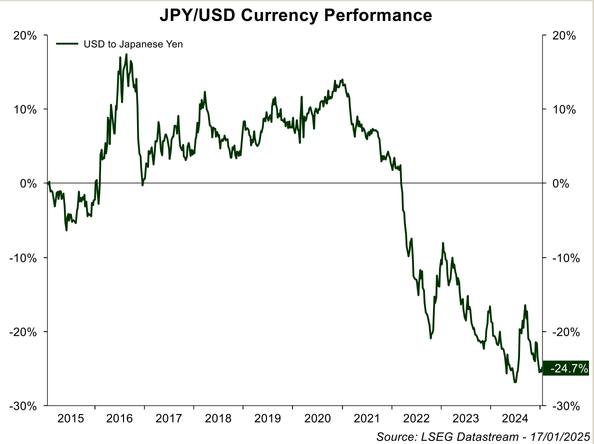
Positive efforts are expected to continue regarding policies for promoting Japan as a leading asset management centre as well as continued corporate governance reforms, on which the Kishida administration had focused.

Domestically focused companies in Japan have witnessed strong demand, enabling them to raise prices in response to inflation—a trend not seen in decades. Additionally, improved consumer purchasing power, driven by wage increases, is expected to support earnings growth, which can then be reinvested into the economy.

Moreover, the Tokyo Stock Exchange has been actively addressing the "value trap" of Japanese equities through ongoing corporate governance reforms. These initiatives include the implementation and refinement of the stewardship and corporate governance codes, which promote greater board independence, diversity, accountability, and alignment with shareholder interests.

Ongoing monetary policy tightening in Japan could be a drag on the economy and earnings. Interest rates have risen in recent years and during the course of 2024 the entire bond curve shifted upwards, tightening monetary conditions.





Strengthening of the Yen could also impact earnings for many Japanese exporters. Given the weakness and undervaluation of the Yen this remains a risk for the year ahead.

OVERVIEW OF 2024

Across our equity mandates, we have been cautious about valuations in the US for some time, remaining underweight US markets compared to well-known global equity benchmarks. In fact, we have reduced exposure further throughout 2024. Despite this, we still have a 50% allocation to US equities (our largest by some margin) but have been shifting away from the market cap-based S&P500 towards the equal-weighted S&P500 for over a year. This has reduced our exposure to some of the mega-cap "Magnificent 7" stocks which have had a particularly strong run since 2022. This has been our largest portfolio change within region during the year.

We also retained our overweight to Chinese equities throughout the year. While a drag on performance in the first half of the year, following the policy announcements in September Chinese stocks rallied significantly and ended the year up 14.9%.

Our US Quality Factor ETF position was closed in favour of US Communication Services to increase exposure to a sector trading at a more attractive Price to Earnings Growth (PEG) ratio, strong balance sheets, as well as upweighting exposure (via ETFs) to Meta and Alphabet.

Within Europe, in Q1 we changed our broader pan-European allocation to add two sectors: 1) Europe Information Technology, and 2) Europe Consumer Discretionary. We retain these positions, giving us more concentrated exposure to European champions with higher margins, solid long-term growth and high-quality balance sheets. These positions, together with our long held European Healthcare ETF, mean a significant portion (nearly 50%) of our European exposure comes from "Blue Chips" such as GSK, AstraZeneca, Roche, Sanofi, Novo Nordisk, ASML, Infineon, Novartis, LVMH, Richemont and SAP. Given the global nature of many of these companies, we gain comfort that any further European slowdown would impact these businesses less. Just recently, Richemont reported Q3 sales results (to 31 December 2024) well ahead of consensus expectations.

OVERVIEW OF 2024 cont.

In Q2, we made a few further changes within US equities closing out our tactical position in US banks in May. This position was initiated in 2023, following the US regional banking crisis and was exited for a positive relative gain vs. S&P500 since initiation. In retrospect we should have held the position for longer as US banks continued to outperform. The proceeds of this sale were allocated to a Global Semiconductor ETF and Global Cybersecurity ETF. Semiconductors are at the heart of today's tech revolution, and as the world continues to digitise, with ever-increasing cyber threats, we feel optimistic about upweighting exposure to this structural growth sector.

During Q3, we amended our Real Estate position by moving away from the Global REIT ETF to a more focussed exposure in Europe and the US. The Global REIT ETF had a significant Asia, and specifically Japan, component. Given the divergent rate environments in Europe and the US (both downwards) versus Japan (higher rates), we seek to concentrate our real estate exposure to a potential re-rating in the US and Europe. US and European Real Estate have been in the doldrums following Covid-19 and high interest rates. But rent escalations and occupancies have both started to improve and valuations are now attractive. Subject to prospective performance, we expect to retain this position for the year ahead.

Within Emerging Markets, we initiated a direct position in Mexico following a significant devaluation of the Mexican Peso and stock market post Claudia Sheinbaum's election victory. Investor concern centred on a raft of constitutional reforms. Potential US import tariffs and uncertainty regarding the outcome of the 2026 UCMCA review have weighed on Mexico since our position was initiated, but valuations remain attractive on a relative basis, and we are comfortable riding out any volatility given modest position sizing.

CONCLUSION

Given the bull and bear case shown above, on balance we recommend investors continue to invest in equities at their appropriate allocation depending on their personal circumstances (liquidity needs, balance sheet size, ability to tolerate risk etc). The global economy continues to grow, supported by several factors: improvement in labour productivity (supported by technology such as AI), easing monetary policy from major central banks, attractive valuation multiples ex-US. Although US equity multiples are high, we continue to like the strong earnings growth momentum in the US, an entrepreneurial and innovative culture, with balanced labour markets.

Near-term, the Trump administration is also likely to be supportive of US stock markets – what investors often underestimate is the impact of 'animal spirits' flowing from a de-regulatory stance on real economic activity. We believe, however, that our positioning should reflect increasing risks to continued US outperformance and hence we remain in favour of down-weighting the US slightly, in favour of other regions.

Within our US allocation, we are being more selective on the sectors and factors to which we have exposure: our key sector overweights and underweights are: within our large cap US allocation a 1/3rd allocation to S&P500 equal weight; sectorally an overweight to US real estate, an underweight to US financials and an underweight to US Energy. Our European exposure is made up mainly of three sectors; Europe Information Technology, Europe Consumer Discretionary and European Healthcare outside of our global thematic positions which include some European exposure (like Cybersecurity, Clean Energy and Semi-Conductors). In Asia-Pacific our greatest overweight positions are to China and Japan. Our direct Mexico position is a large portion of our developing market exposure alongside China. Canada remains a large underweight within developed markets alongside the US.

We expect 2025 to bring increased volatility. Some of this may be a function of the 2nd Trump administration and associated policy uncertainty. The relatively late stage of the business cycle is an additional consideration. Monetary policy has been shifting to be more accommodative in many developed countries, but disinflationary trends of the past two years have slowed, with certain key inflation components remaining "sticky" above many central bank target levels. This could become cause for concern about rates being "higher for longer" thus dampening growth.

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NOTES AND REFERENCES

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The Fund's Total Expense Ratio ("TER") reflects the percentage of the average Net Asset Value (NAV) of the portfolio that was incurred as charges, levies and fees related to the management and administration of the Fund. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return.

OMBÚ

Phytolacca dioica

OMBA

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Resilience, Growth, Longevity

BAOBAB

Adansonia digitata

Throughout the Pampas grasslands of Argentina one can find sparsely scattered a large, resilient tree called the Ombú with a beautiful 10 – 15-metre-wide canopy and a height of up to 20 metres.

Ombús are particularly robust; sustaining below freezing to upper 30's °C temperatures, hurricanes, locusts and ant infestations. Thanks to their massive water-storing trunks, which form a large fleshy base, they are also able to withstand drought. They are also a salt resistant species and thus often found near the ocean.

Ombús are sometimes known as the "Lighthouses" of the Pampas, as the trees provide shade for Gauchos and others that are traveling through the grasslands and they thus often go by another name - "Bella Sombra", meaning "beautiful shade".

There is ongoing medical research into the benefits of the Ombú tree, which is a rich source of several ribosome-inactivating proteins which can be isolated from both the seeds and leaves. The whole Ombú tree genus Phytolacca is being studied for the treatment of fungal, viral and bacterial infections.

The African Baobab is typically found in the dry, hot savannahs of sub-Saharan Africa where they dominate the landscape and reveal the presence of a watercourse from afar. Their longevity, which is debated, seems to be in the order of 1,500 years. Baobabs are valued as sources of food, water, health remedies or places of shelter and are steeped in legend and superstition. Livingstone, the explorer, who famously carved his name on a number of trees, said it was likely that these trees were grown 4,000 years ago.

Although they can grow to between 5 to 25 metres in height, they are not only known for their height but also their bottle shaped trunk's girth which can reach a diameter of 10 to 14 metres. Interestingly, the span of the roots exceeds the tree's height, a factor enabling them to survive in a very dry climate for a very long time.

The African baobab's fruit contains 50% more calcium than spinach, is high in antioxidants, and has several times the vitamin C of an orange and is today imported into developed countries as a "Superfood".