Markets & Convictions

RJ Management

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The recent U.S. elections have bolstered appetite for U.S. equities, with notable outperformance by U.S. indices. The Republican victory marks a significant political and economic shift. In the United States, despite high debt levels, the economy remains robust. In Europe, attractive valuations justify maintaining exposure, despite industrial setbacks and lagging behind the U.S. Energy, gold, and hedge fund themes present opportunities, while a "value" approach is being emphasized to diversify equity market exposure.

Situation update

- The recent U.S. elections have reignited the "animal spirit" among investors for U.S. equities, resulting in significant performance dispersion in 2024:

  ◦ CAC 40 : -1.42%. ◦ SMI : +5.89% ◦ S&P500 : +27.1%

- Key observations following this political event:

  ◦ Polls once again failed to capture the Donald Trump wave accurately

  ◦ Democrats focused on traditional media for their campaign, while Republicans leveraged alternatives such as podcasts (featuring long interviews of 2-3 hours) and X (formerly Twitter)

  ◦ The Republican victory also signals a shift of certain tech entrepreneurs (historically aligned with Democrats) toward the Republican camp

  ◦ Contrary to concerns, no major violence followed the election results

- A new convergence of political power and "tech" entrepreneurship is exemplified by Donald Trump and Elon Musk, an iconic figure who has revolutionized multiple industries in less than 20 years (automotive, aerospace, telecommunications, energy, media).

- In Europe, there is a negative perception of this blending of politics, large fortunes, and spheres of influence, reflecting a lack of understanding of the Trump movement.

- Greater Asia continues to disconnect from the dollar:

  ◦ China issued $2 billion in bonds in Saudi Arabia, which were oversubscribed by $40 billion at a rate close to U.S. Treasury yields (+0.02%) / LINK

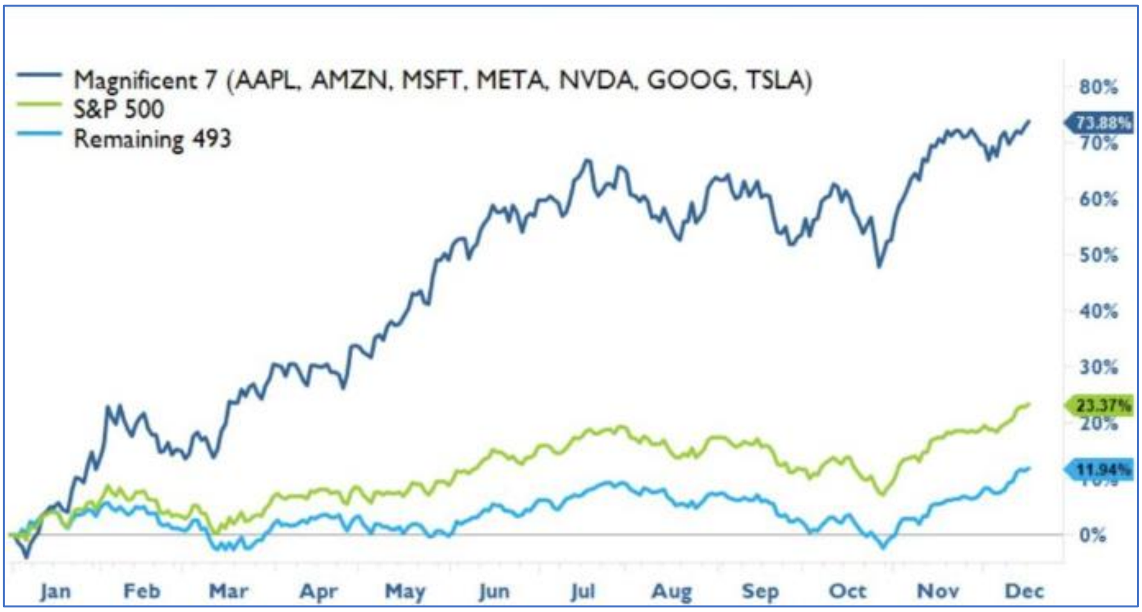
  ◦ At the same time, China and Japan have significantly reduced their holdings of U.S. Treasury bonds / LINK

- In the US, despite excessive accumulated debt and significant refinancing needs, the economic situation remains positive:
  - GDP Growth: +2.8%
  - Unemployment Rate: 4.1%

- In Europe, while economic performance is reasonable (GDP Growth: +0.9%, Unemployment Rate: 6.3%, a historic low), the continent struggles to produce global champions:
  - A notable example is the bankruptcy of Northvolt (LINK), a presumed leader in electric batteries, despite over €10 billion in investments (including $1 billion from Goldman Sachs in private equity funds)
  - Following the famous Draghi Report (LINK), the IMF highlights Europe's growing lag behind the United States, emphasizing the urgent need for action (LINK)

- Geopolitical tensions persist and remain a significant risk, but for now, they have not impacted financial markets:
  - Strikingly, the outgoing U.S. administration has authorized the delivery of long-range missiles to Ukraine, prompting a Russian response with the Oreshnik missile, capable of carrying multiple nuclear warheads. Details of its functionality, which merit serious consideration, can be found here: LINK
  - Thankfully, no nuclear escalation has occurred to date; however, tensions remain concerning, especially in Syria and Georgia.

The "Magnificent 7" and the 493 other stocks in the S&P 500 index year-to-date



Convictions

- The recent U.S. presidential election has elevated U.S. equity market valuations to historic levels, though this premium is largely driven by a few dominant stocks in the S&P 500 and Nasdaq indices.

- The United States is grappling with a critical public debt crisis and an unsustainably large budget deficit, largely driven by soaring debt servicing costs and substantial quasi-mandatory expenditures, commonly referred to as "entitlements."/ LINK.
- One of the few viable strategies is to stimulate robust nominal growth, enabling the replenishment of state coffers through the resulting automatic increase in tax revenues.
- This explains the massive deregulation program of the new Trump administration.
- Within this framework, a new manager, Harris, has been selected for their "value" approach, which complements the Loomis vehicle (+34.75% this year), more focused on growth and technology.
- In Europe, despite negative perceptions, extremely low valuations justify maintaining exposure through Eleva (mid/big caps) and Berenberg (mid/small caps).
- Swiss equities continue to perform well despite a strong CHF. Corporate results demonstrate their ability to preserve margins and revenue. Confidence is maintained in GAM for Swiss small and mid-caps.
- In these periods of elevated market valuations, we capitalize on "moderate" earnings reports from major industry leaders to identify potential buying opportunities, providing yields comparable to equity returns (7% in CHF and over 10% in USD).
- Over the past nine months, we implemented this strategy with Lonza and Salesforce (both positions now closed). Recently, we initiated new positions in Sika, PayPal, and Nike.

- The new Treasury Secretary, Scott Bessent, has set a clear goal: "3 – 3 – 3" (3% budget deficit / +3% GDP growth / +3 million barrels of new oil production).

- As we have previously discussed, the critical issue is not what the new administration wants to achieve but what it can realistically accomplish given its numerous constraints (see a well-written article on the topic: LINK).

- It is, therefore, companies—not the government with its "Drill, Baby, Drill" mantra—that will shape investment plans for new energy resources.
- In this context, with spot oil prices at $75 per barrel and two-year futures below $70, shareholders are opting to limit expansion projects. Chevron, for example, has recently announced a reduction in its investments—a noteworthy decision and the first of its kind since the COVID era / LINK.

- Additionally, a new competition is emerging between natural gas and oil as energy "molecules":

    ◦ This also explains the growing popularity of plug-in hybrid vehicles (outpacing fully electric vehicles). They allow drivers to use the cheapest available energy source—gasoline or electricity—which is itself generated as efficiently as possible through nuclear, natural gas, hydro, or green energy sources.

    ◦ In Europe, natural gas is priced at $14 per MMBtu (a standard unit of measurement). Converting this price to its oil equivalent by multiplying by 6 (results in $84) per barrel of oil equivalent, compared to Brent crude trading at $73. This disparity does not seem sustainable.

- The gold and gold mining theme has proven highly rewarding this year, with gold prices up +28% and the IXIOS Gold fund delivering +42.5%.

- The growing fiscal pressure in Western countries leaves governments with few options, forcing them to enhance fiscal engineering to increase taxation on their citizens. In this context, gold remains a reliable "securitized" asset!

- Two recent examples: Holland's implementation of an exit tax (LINK) and France's recent increase in transfer duties (LINK).

- Periods of massive deregulation create opportunities for Long/Short hedge funds, which excel at generating relative performance between companies.

- Invenomic, selected several years ago, is underperforming in 2024, but the position is being maintained. Other vehicles are delivering strong results: Eleva (+8.5%), Advent (+8.84%), Westbeck (+15.2%), and Volta (+4.5%).

- Corporate credit remains relatively healthy, supporting our positions in Carmignac and Man for Western credits, as well as Vontobel for emerging markets.

This year, we admittedly erred on the side of caution by underweighting U.S. equities. However, we remain confident in the strength of our selection process and valuation-driven approach, ensuring that we invest only in what we truly understand.

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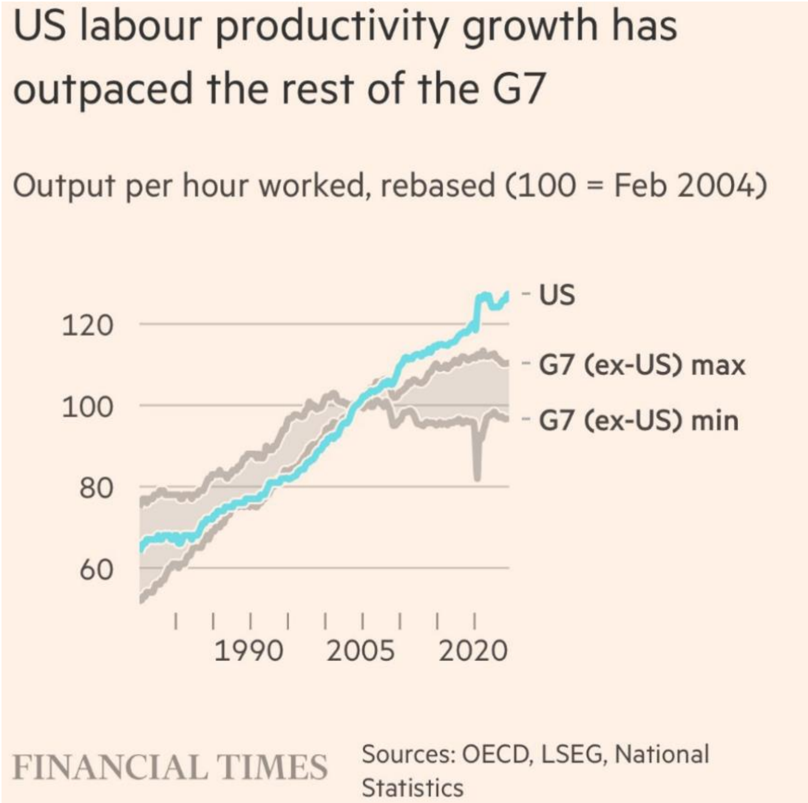
The magic of American productivity at work, reflected in labor productivity when compared to other G7 countries.



Interesting to read & listen

The new Treasury Secretary Scott Bessent / LINK

Impact of low birth rate and new lifestyles for couples / LINK

The Unavoidable Peter Thiel After the Elections / LINK

Ouvrage du philosophe Pierre Henri Tavoillot, « Voulons-nous encore vivre ensemble ? » / LIEN