Markets & Convictions

RJ Management

March 2025

The first quarter of 2025 took much of the financial community by surprise, as many had significantly overweighted U.S. equities at the end of 2024.
This shift reflects major geopolitical and economic disruptions.
While we do not comment on political decisions, we strive to anticipate their consequences.
The cautious approach we adopted in 2024 is proving valuable today, and certain themes—such as gold—are helping to offset the sharp market corrections.

Situation update

- The new U.S. administration has caught the vast majority of investors off guard.

- At the end of 2024, many discussions with our clients and partners revealed a strong consensus in favor of overweighting U.S. equities—particularly in the tech sector.

- Three months later, the situation is clear: Capital markets have shifted away from the U.S. in favor of Europe.

- Year-to-date performance:
  - S&P 500 : -8.25%
  - EuroStoxx 600 : +3.73%
  - CAC 40 : +2.9%
  - DAX + 8.94%
  - Nasdaq : -14.29%
  - Nikkei : -12.58%
  - SMI : +5.75%

- For years, financial markets have significantly overweighted the U.S., driven by the belief in "American exceptionalism."

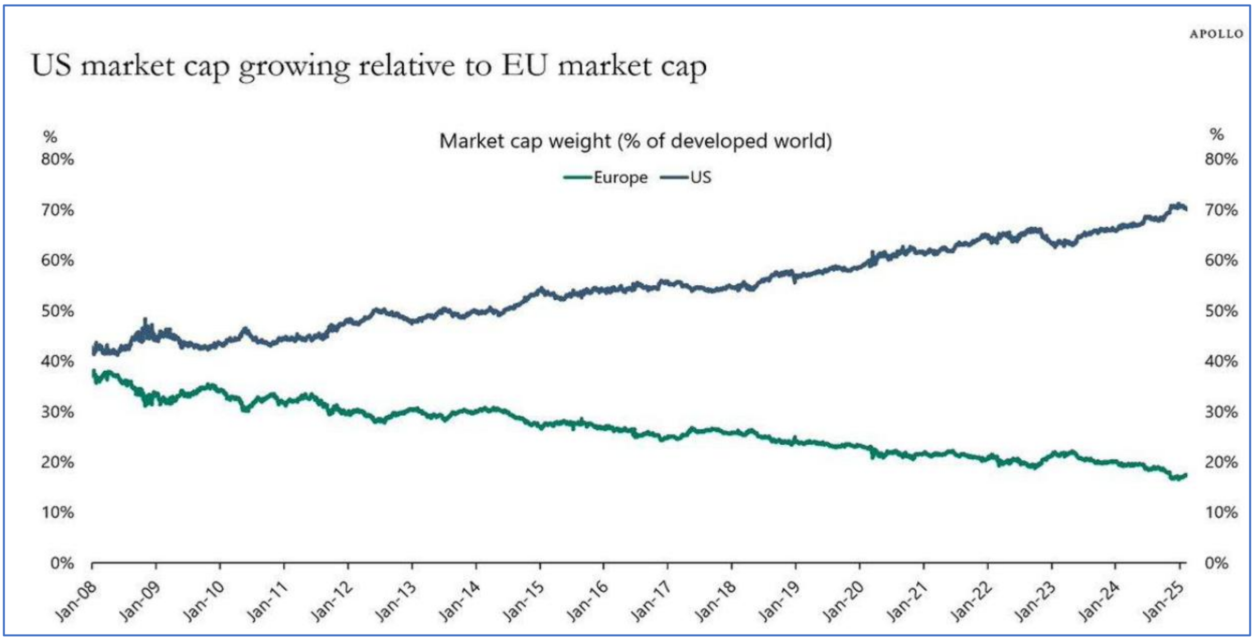
- And with good reason: strong economic growth, abundant liquidity, efficient shareholder-friendly capital market regulations, and no wars on its geographic borders.

- The U.S. response to COVID, followed by the massive stimulus programs under the Biden administration (American Rescue Plan Act, Infrastructure Investment and Jobs Act, Inflation Reduction Act, and CHIPS Act), led to a sharp increase in public debt—ultimately benefiting the U.S. economy, which grew significantly more than Europe's, as did its financial markets.

- At the same time, Russia's invasion of Ukraine in 2022 prompted many European institutional investors to increase their exposure to the U.S. at the expense of European assets.

- As a result, by the end of 2024, global portfolios were heavily concentrated in U.S. equities, largely dominated by the so-called "Magnificent 7": Microsoft, Amazon, Meta, Apple, Alphabet, Nvidia, and Tesla.

Since 2008, when their respective weights were similar, the evolution of U.S. versus European market capitalizations has diverged significantly



- A first major event shook this technological dominance: the release of Deepseek.

- This Chinese artificial intelligence model cost only a fraction of the American-built ChatGPT and shows that—even with the U.S. banning Nvidia chip sales to China—the country is still finding ways to challenge “American exceptionalism.”

- The second event was the February 28th meeting in the Oval Office between Zelensky, Trump, and his vice president, Vance.

- These images shocked the world—particularly European policymakers.

- Their response was swift: within days, Europe announced an unprecedented EUR 800 billion rearmament plan ("ReArm Europe"), while Germany unveiled a massive EUR 500 billion infrastructure package, including a parliamentary vote to amend its constitution! (LINK)

- Meanwhile, China, grappling with sluggish economic growth, also introduced a major stimulus plan backed by expansionary fiscal policy. (LINK)

Convictions

- The core foundations of the Pax Americana (LINK) are now being questioned.

- Since the Marshall Plan, the United States has imposed its model on the rest of the world: promoting free trade in exchange for its protection (via NATO) and establishing the USD as the global reserve currency.

- This system allowed the U.S. to finance a structural deficit: as foreign countries accumulated U.S. dollars through global trade, they used them to purchase American debt—and more recently, U.S. equities.

- However, history shows that no reserve currency lasts forever. Before the dollar, it was the British pound—and before that, the Dutch guilder (LINK).

- For over a decade, the U.S. has benefited from a growing feedback loop (LINK) that reinforced these conditions: rising equity markets ➔ wealth effect for shareholders ➔ increased consumption (today, the top 10% of households account for 50% of total U.S. consumption) ➔ growing current account deficit (as Americans consume more than they earn) ➔ this deficit is financed by foreign capital inflows—largely into U.S. tech stocks.

- The outcome of this cycle is stark: the U.S. now has an extremely negative net international investment position (i.e., total American assets abroad minus foreign-owned assets in the U.S.). Foreign investors currently hold the equivalent of -80% of U.S. GDP (!!!!) LINK.

- One of the most prominent hedge funds, Bridgewater, recently published research (LINK) showing that for every dollar saved and invested, globally in equities, 70 cents have gone—and are expected to continue flowing—into U.S. equities, helping justify their overvaluation.

- In response to this debt issue, the new U.S. administration has decided to significantly reduce the state's footprint in the private economy. Major budget cuts have been introduced, along with massive layoffs.

- We anticipate a slowdown in the U.S. economy, even though, at the end of 2024, the majority were still “pricing in” a continuation of American exceptionalism.

- Based on that same outlook, at the end of 2024 we selected a U.S. equity manager with a defensive approach—Harris US Value—which remains in positive territory (+0.7%). We also reduced our long-standing exposure to the LOOMIS US Growth fund, which is currently down -9.18%.

- While the U.S. is implementing spending cuts, Europe is launching stimulus plans—and those will need to be financed.

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- Capital flows to where it is treated best—and today, that place is Europe, given the promising outlook.
Our selected managers, focused on industrials and mid/small caps, are still showing modest performance, but we are confident they will also benefit from this momentum—along with Swiss equities.

- For several years now, we have built exposure to the gold theme, including direct holdings of gold ounces and a specialized equity fund focused on gold mining companies.

- The price of gold is rising across all currencies (between +13% and +18%), and the IXIOS Gold Miners fund is up +31.7%.

- We believe this theme still has strong potential. Selling pressure on U.S. indices is expected to persist, with capital flows continuing to shift toward Europe. However, many investors remain sceptical about the Old Continent's ability to execute its industrial plans. Gold remains a compelling alternative.

- In the face of massive sovereign debt levels, the battle for capital is likely to intensify—governments will seek to tap into private savings.

- This will trigger significant movements in interest rates, yield curves, and currency valuations. To fully capture these trends, we have recently selected the H2O Multibonds manager.

- Our fixed income approach remains relatively short in duration (< 5 years), and our selected vehicles are capturing yields effectively in EUR: Man High Yield: +2.04% / Carmignac Credit: +1.8% / Axiom Obligataire: +1.5% / Vontobel EM: +2.32%

- It's important to remember that equity markets—especially in the U.S.—are expensive, with price multiples above 20x earnings and, notably, still highly optimistic earnings growth expectations.

- Our economic slowdown scenario will likely lead analysts to revise forecasts downward and drive a compression in valuation multiples.

- As such, we remain globally cautious, maintaining broad geographic diversification.

- Nonetheless, it's essential to seize sector-specific opportunities and build strong convictions in these volatile markets. Our Recovery Equity Certificate, with its value-oriented approach, continues to perform well at +5.1%.

- It's important to keep in mind that financial markets are often driven by narratives that tend to benefit intermediaries—not always investors.

- Themes like electric vehicles or obesity have come back down as quickly as they rose, despite alarming levels of retail enthusiasm—Novo Nordisk, for example, has dropped more than 50% from its 2024 peak.

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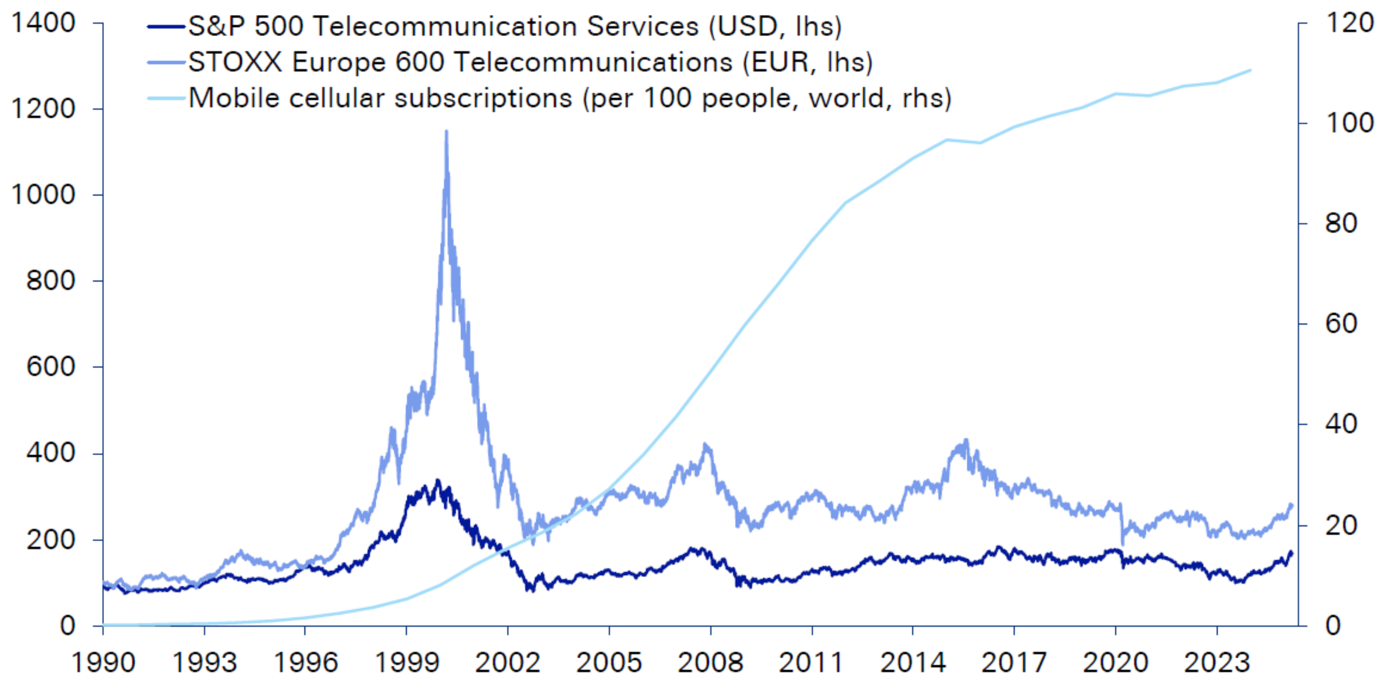
The AI theme has been front and center for over 24 months now.

However, as the long chart below reminds us: the mass adoption of a technology—such as mobile phones—does not necessarily translate into strong stock market performance for the companies producing it.

Global cellular subscriptions per hundred and the US/European Telco sector price performance



Source : Bloomberg Finance LP, World Bank, Deutsche Bank

Interesting to read & listen

Geopolitical Cousins: New release featuring the excellent strategists Marko Papic and Jacob Shapiro/ LIEN

ALL IN: Discussion with Scott Bessent, the U.S. Secretary of the Treasury/ LIEN

Artificial Intelligence: Understanding and using these applications – ChatGPT / Perplexity / Mistral, etc. / LIEN

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