INTUITION

14 MARCH 2025

Reiterating the case for Offshore Investments

Are you superstitious? Apart from the planetary alignment that took place at the end of February, the year 2025 has got mathematicians all excited. 2025 is a perfect square (45 x 45) and it is also the sum of the cubes of numbers one through to nine. The stars are aligning – literally and figuratively – which might be behind the latest ETF to list overseas – The Tuttle Capital UFO AI-Powered ETF. Seriously! This ETF aims to use AI to trawl through hordes of documents and invest in companies benefitting from alien technology. If that doesn't hint at the peak of a stock market cycle, nothing will. This week, we presented our Insight seminar focused on offshore investments. We summarise that presentation below.

Michael Porter

After that brief sojourn into space, maybe it is time to come back down to earth. The nub of the issue is that uncertainty over both economic policy and trade policy has risen enormously in recent months. That is not surprising given the slew of tariffs – and the daily changes thereto – announced by the Trump Administration. After years of predictable and stable policy, which has been the bedrock of the global economy, uncertainty is rising – and it appears there is more to come. This uncertainty coincides with a period of US exceptionalism – stocks markets in the US have outperformed their global peers by a factor of three since 2014.

Until the last few days, markets have taken the rise in uncertainty in their stride, hardly blinking. The VIX Index (a measure of the cost of protecting against falling markets) has been remarkably stable, although it has risen in the last few days. The recent wobble was triggered by an interview that Mr Trump gave to Fox News. Markets have always assumed that President Trump places a lot of weight on the direction of the stock market, seeing the S&P 500 index as a barometer of confidence in his administration and of the success of his policies. However, in his recent interview, the President suggested that the economy was in a period of transition – and that there would be short term pain for longer term gain. This caused markets to swoon as they digested the growing possibility of a slowdown in growth, even a recession. Indeed, JP Morgan (who we believe has one of the best economic modelling teams globally) has raised their probability of a US recession this year to 40% (from 30% previously.)

SPEED READ

- **Uncertainty over both economic policy and trade policy has risen sharply over the past two months.**
- **Until recently, markets have taken this in their stride. But comments from President Trump that the economy is "in a period of transition" has spooked markets and raised the spectre of a near term recession.**
- **The US economy is at an inflection point. The path ahead is not clear. A near term slowdown looks likely due to heightened uncertainty, but the US could grow strongly in 2026 as the benefit of tax cuts and investment kick in.**
- **Investors should remember that it is not all about the US. European and Chinese tech shares have outperformed their US peers over the past fifteen months.**
- **We recommend that investors have diversified, balanced portfolios that capture multiple themes to mitigate against unpredictable developments.**

That said, it is not clear which path the US economy will follow for the remainder of the year and into 2026. Tariffs have been threatened, implemented, reversed, and changed. Some have stuck – such as the 20% tariffs on all Chinese goods. Targeted countries are also fighting back – Canada is particular, but China has also responded with targeted tariffs. The near-term impact is rising uncertainty for US businesses and consumers – they don't know where they stand from one day to the next. We know all too well in SA the price of uncertainty. It results in a "wait-and-see" attitude and delayed decisions, which undermine growth. High frequency indicators suggest that the economy is slowing already in response to the uncertainty. But looking further out, the cuts to government spending, the possibility of tax cuts, and the investment boom following reshoring initiatives could set the US economy up for strong growth in 9 months' time. The jury is still out – and its impossible to call. We will have to assess the data as it unfolds.

There are a few additional points worth noting:

1. President Trump would like a weaker Dollar and indeed the currency has weakened in recent weeks. That would be good for US companies, good for commodity prices, and potentially also good for SA.
2. Europe has been mired in a low growth trap for years, but a new urgency over defence spending, the possibility of a resolution to the Ukraine War, and political change in Germany suggest an acceleration in growth. European shares have delivered the same returns as US shares over the past fifteen months – very much against conventional thinking.
3. China has changed its approach to its tech industry. It has realized it needs its tech giants to compete with the US, especially in AI. The Chinese tech sector has outperformed the Magnificent Seven over the past fifteen months – again, against conventional wisdom.

We must accept that there is a new sheriff in town, and that global policy will look quite different in the future to what it has been in the past. This is a fundamental change in the way the world has operated, and it will create volatility. However, we must also acknowledge that Trump is also pushing for a smaller, more efficient government. Musk has been tasked with cutting costs and unnecessary waste. Already other countries are talking about doing the same. If they succeed, Trump would certainly be remembered and thanked for that!

Given all the noise and constant change, how do we position portfolios? In a nutshell, it is through having a balanced, diversified portfolio that is not overly reliant on one sector or industry. How often have you heard commentators say over the past few years that it is all about the US. If you do not have all your money in America, you're stupid! Likewise for exposure to the Magnificent Seven. As I alluded to earlier, European shares and Chinese tech shares have outperformed their US peers in recent months. In the past, we have presented our diagram which highlights our global themes. This is updated constantly. Our five themes are currently:

1. Cash flow champions – globally dominant companies with strong balance sheets, strong cash flows and strong dividends. Share prices might be volatile, but these companies continue to deliver the goods. Examples would be Visa, Imperial Brands, Coca-Cola, to name a few.
2. Healthcare and wellness. This is a long-term trend of people becoming more healthy, focusing on diet, weight loss and exercise. Large pharmaceutical companies like Novo Nordisk and Eli Lilly are ideally positioned as are apparel brands like Nike and Adidas.
3. Infrastructure and energy. We dug a little deeper in the presentation into this theme, highlighting the amount of copper it requires to meet the demands of AI and the green transition. For us, AI is not just about Nvidia, but also the underlying infrastructure, such as power lines, and grids. Most countries are guilty of underinvesting in their infrastructure – it is estimated that $600 billion is required annually to upgrade the world's electricity infrastructure to cope with expected demand. This provides opportunities in "old industry" companies that typically trade on far cheaper valuations than the tech giants.
4. A recovery in China. Having had a few false starts since Covid, we believe that the tide is turning more positive in China. Stimulating domestic demand is the number one priority for the Chinese government this year, but higher stock markets and a boom in tech will further support consumer confidence.
5. Finally, we continue to have AI and Big Data as a theme. In the presentation, we highlight the growing complexity of manufacturing ever smaller chips and the number of companies that have mastered the technology. Furthermore, ASML is the only company in the world that supplies the equipment to manufacture EUV chips (chips smaller than 15 nanometers that require extreme ultraviolet.) As they sell more machines, and the base grows bigger, so does the proportion of service revenue, in turn reducing their reliance on lumpy machine sales.

Finally, how will SA be impacted? We must acknowledge that risk has increased in recent months of weaker growth relative to our expectations late last year. SA is a small cog in a global wheel. On the one hand, we see positive tailwinds for SA from a weaker dollar and weaker oil prices, which would be beneficial for local inflation and interest rates. That would support our reform-driven recovery and accelerate growth. On the other hand, we are concerned that our government is provoking the US unnecessarily – by for example having the Iranian ambassador to tea. We could lose trade benefits which might weaken the Rand and undo the benefits mentioned above. It is too early to tell. But a portfolio of dominant local champions and Rand-hedge shares should weather any scenario.

For more insight and the detailed slides, please visit our YouTube Channel where you can watch a recording.

Our next Insight seminar will be held in June. As usual, we will take stock of how our economy and markets are faring six months into the year."

Topic: **Mid-Year Update**

Natal Midlands

Date:	12th of June 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	3rd of June 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	5th of June 2025
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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