STRATEGY OUTLOOK

FEBRUARY 2025

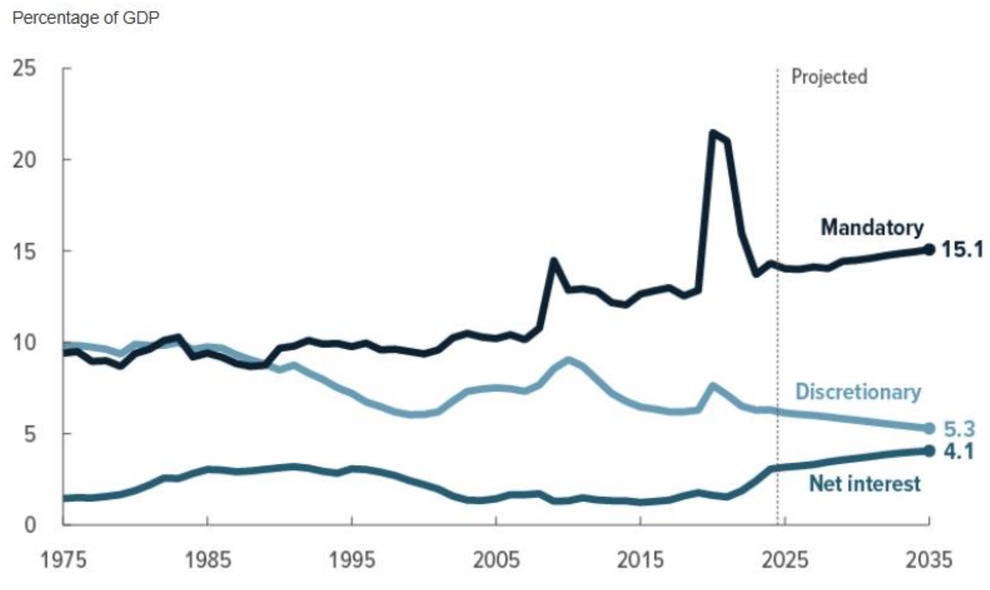
Key takeaways-

- Trump flexing, but economies aren't markets.
- Bullish USA but value elsewhere.

Perhaps the challenge for 2025 is separating the "flex" of Trump 2.0 from the outlook for the economy and markets. This isn't easy as the "rulebooks" get torn up and change is enacted swiftly, at least before the Mid Terms. However, economies are typically a lot slower moving and so although optimism is being embraced the gap between it and reality will likely have a love-hate, on-off relationship. **Expect volatility.**

We have no view on renaming the Gulf of Mexico or on whether Greenland would be a good investment. We do think it's interesting that China was only mentioned once in the inauguration speech – stay tuned on that topic. **Smoke and mirrors abound.** For a 78-year-old he's certainly hit the ground running on a huge swathe of topics. The influx of his private sector career appointees must also be rattling a government bureaucracy arguably staid and a lot less dynamic. This is the risk going forward that change is simply too radical and causes fractures despite the "can do" attitude most Europeans admire about the Americans.

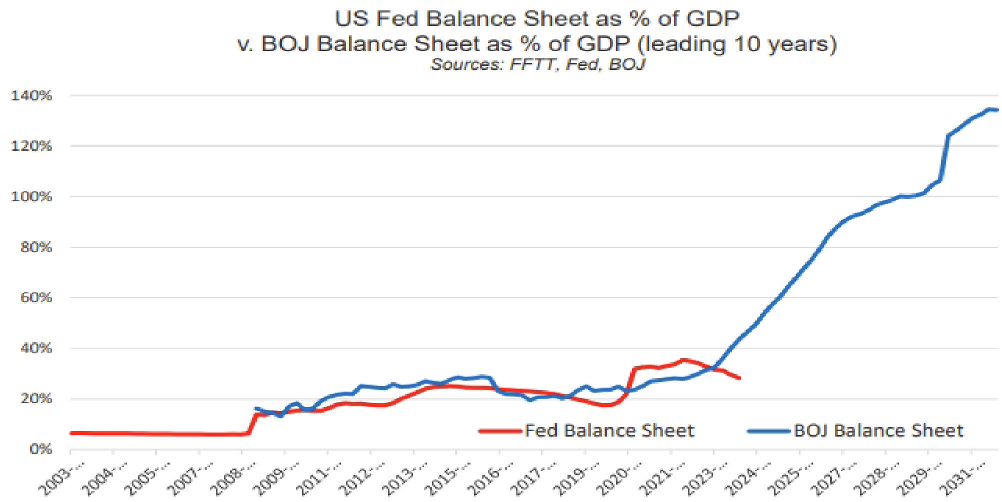
Markets since the election have been euphoric already discounting the promised productivity and technology booms. However, the reality is a lot less straight forward. Excessive Government spending, debt to GDP at 125%, a deficit of around 7% of GDP plus the functioning of the debt market all need urgent attention. The graph below was produced by the Congressional Budget Office and is clear. Cutting waste is easier said than done and there will be few quick fixes. Despite the noise and flex our strategy remains however unchanged. Gold, Bitcoin & Stocks before bonds. Cash in the short term is ok but is losing in real terms.



Deregulation should act as a significant tailwind to commerce. Other positive supply shocks include tax cuts and accelerated energy production. Regulatory concerns **were** probably the primary negative response to any proposed capital expenditure plans by corporates.

Despite many criticisms of the TRUMP crypto coin, which was released on the inauguration, what it likely did was show every company, municipality, university, and brand that crypto was open for business. The genie is out of the bottle, we will see the start of sweeping moves in tokenisation and technology more generally. The US is clearly open for business and the rest of the world needs to catchup.

For the rest of the year the market is pricing in around 1.5 rate cuts. The move higher in the USD and bond yields in Q4, via tightening financial conditions, should slow the economic data going forward. Inflation and its potential impact on markets remains an unknown quantity. We know that the base effects from a year ago should help dampen inflation into April and indeed so should USD strength. **There are few signs of wage growth** which is important for service inflation at approximately 61% of CPI. Shelter inflation is always a serious laggard however oil is stronger. Current CPI is above target at 2.9%, its whether there is enough weakness to allow for Trumps dream of rate cuts. Mortgage rates remain above 7% and must be a headwind to real estate. History tells us that periods of excess debt are ultimately deflationary but in the shorter-term **Governments must suppress interest rates to inflate away the debt** and force the banks to lend. French total debt to GDP is 311% with the US at 255%. No amount of flexing is going to see a quick fix.



Treasury Secretary Scott Bessent has also had to hit the road running. This year around 30% of US Treasury debt needs to be refinanced and, in the process, raise liquidity levels. Some form of QE that is not termed QE is likely and would help get the USD down. The second chart highlights the current size of the balance sheet vs GDP and in relation to Japan's situation.

Being bullish the US doesn't automatically equate to being bullish US assets. The "Magnificent 7" already account for 21.5% of the world stock market. Nvidia has half the market cap of the Shanghai Composite Index and Tesla has roughly the same market cap as all the other auto manufacturers in the world. The US makes up over 70% of the market cap of the world equity index. **When are US assets just too expensive with too much good news priced in**? A weaker dollar would certainly help emerging markets however Europe has other issues, all of which are well known.

One big risk for US asset markets isn't necessarily valuations but ownership. Issues abroad could easily and quickly see repatriation of funds selling US assets and the dollar back home – China, Japan etc. Owning small to mid-caps, often unloved and under owned would certainly negate this risk.

Where the USD goes will be key. The fundamental story of the US remains clear, yet the new management would certainly prefer some weakness. Ultimately, it'll probably remain on the stronger side until liquidity is brought to bear. **For the time being a strong dollar helps with trade negotiations and tariff headlines help.**

Change is afoot with both positive (deregulation) and negative (tariffs)supply shocks possible. However there remains too much debt, a deficit, and a government sector spending too freely. However, markets to this administration seem just as important as opinion polls. Expect volatility and a positive year.

We remain positive on risk assets in particular Gold and Bitcoin. We suspect that Gold will, on a relative, view outperform risk assets. We will be keen observers of the path of the USD as to when EM can begin to shine and will ponder the question whether Europe is cheap enough yet.

Part of our focus will be towards technology and the frightening pace of advancement in AI, robotics and potentially quantum computing. That last sentence didn't do either the pace of growth or the spectrum of growth justice. Change is coming fast.

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