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NEWSLETTER | Q1 2025

IN THIS ISSUE

Q1 2025 COMMENT

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

The first quarter of 2025 felt like groundhog day from the start of 2022. The S&P 500 Index fell 5.1% as the late 2024 rotation from concentrated names in Magnificent 7 (M7) continued and the fervour of AI subsided, at least for the time being. The tech heavy Nasdaq fell 8.2% and, within that, semiconductors, which had been the flag bearer for AI, fell 14% (SOX Semis Index). The comparison to 2022 is eery, with almost identical Q1 pullbacks in that year and this was a pre-cursor to an ugly Q2, so investors have started to take a more cautious stand.

The threat of tariffs that also pervaded the quarter (they didn't become reality until 2 April in Q2) led to significant positioning changes at the single stock level. Consumer-facing product names were hit hard as the prospect of selling products made in China especially and sold into the US were under threat from tariffs.

M7 names came under pressure as investors rotated from the highly successful concentrated ETFs into broader product sets like the S&P Equal Weighted ETFs and actively managed ETFs. The consequent impact on M7 was significant; in index terms, about 70% of the S&P fall was from those names. Nvidia was down 18%, Alphabet -18%, Apple -13%, Amazon -12% and Microsoft -10%. The outliers bookending the group were Meta, which dropped just 1.5% in the quarter, and most notably, Tesla, which fell a whopping 35% as delivery numbers from across the world came in significantly lighter than expected – in some cases, as much as 50% lower than the previous year.

As we highlighted in the 2025 outlook, diversification has proved to be valuable, with gold and the gold miners in particular providing a safe haven. Gold rose 17.8%, reaching an all-time high of $3,120, and the iShares MSCI Gold Miners ETF increased 36.8%. We also made the case for China and we were not disappointed as that index increased 11.6% in Q1. Obviously, much has changed since the end of the quarter and we assess all that has occurred with the Trump tariff programme in the Outlook section at the end of this newsletter.

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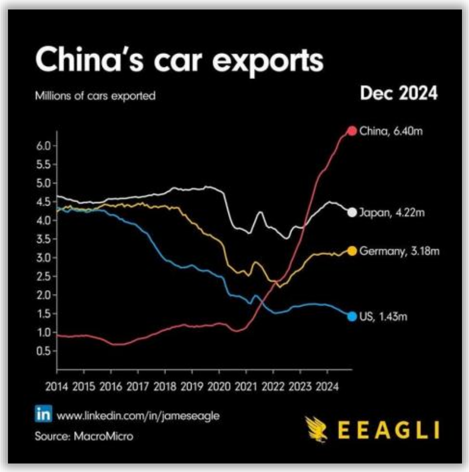
Is the auto industry heading the way of flat screen TVs: cheap and commoditised?

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

The rise of Chinese electric vehicle (EV) manufacturing has been well documented and BYD has risen to become the brand with the world's largest unit sales count. With a forecast 6.5 million units for 2026, this will eclipse the likes of Tesla by over three times their expected two million units. However, the success of Xiaomi points to a more interesting point – they are not an auto manufacturer by heritage but a consumer electronics maker. They are better known for household electronics like intelligent speakers, TVs, smart air fryers and mobile phones. What right do they have to be producing such successful EVs?



The answer probably lies in the fact that in many ways an electric car with all its connectivity, advanced sensing and software puts it closer to consumer electronics than most in the car industry would like to admit. With significantly less moving mechanical parts, the mechanical engineering heritage of the traditional manufacturers is devalued. An electric car may have as little as 20 to 25 moving parts in their drivetrain. A gasoline car may have as many as 100 parts in the engine alone and well over 1,000 moving parts in total. The manufacturing skillsets are totally different and with Chinese innovation in consumer electronics, they are well set to keep producing better cars quicker and cheaper than the West.

Market forecasters expect unit sales in 2025 of about 20 million EV units globally. China will produce more than 60% of those units; BYD alone over 25%. Less mechanical engineering challenges and way fewer moving parts means better reliability, cheaper running costs and likely great longevity.

It is really hard to see where the future lies for traditional auto makers even if they wholeheartedly adopt EV. According to the European Commission, there are almost 14 million people employed in the European auto industry. Manufacturing (direct and indirect) accounts for 3.5 million jobs, with sales and maintenance a further 4.5 million. The impact of EVs, combined with autonomous driving, puts many of these jobs at risk. The combination of entrenched views in Europe, a lack of labour flexibility and general intransigence make the outlook bleak for a manufacturing sector that is starting to look far more like a new strand of consumer electronics than anything else.

How can Xiaomi develop products so fast? This new model sold out 10,000 units online in just 10 minutes. Where does this kind of brand and product hype exist in the world of autos? It is surely an indicator of the consumer electronics nature of evolving autos; way less competitive than at first thought and a market that lends itself well to the classic Chinese fast follower advantages. What is even more mind-boggling is that when the car was previewed last year, the expected price point was well over $100,000; the launch price just a few months later is $75,000 – top-quality consumer electronics with costs trending down.

Post-Covid, the Chinese have been taking market share in foreign markets at an astonishing pace. This should perhaps not come as a surprise – there have been many technologies copied in the past and surpassed by the sheer manufacturing prowess of the Chinese. Mobile phones are a case in point. Go back to 2007, just before the iPhone was launched by Apple and Nokia had unit sales of 437 million or an almost 50% global market share. Blackberry also had meaningful penetration – 20% of the market in 2009. Neither company was able to hold on in any way. This was not just about the launch of smartphones and their competitive threat; it was far more about the ability of the incumbent players to re-engineer and develop new products rapidly and cheaply enough.

This type of competitive threat will be even more difficult for the traditional ICE auto manufacturers. A typical model cycle for the European auto makers is seven years – in today's world that is a lifetime or, perhaps more accurately, a life sentence! Xiaomi Automobile (the auto division of Xiaomi) was formed in 2021; the company received a permit to produce vehicles in August 2022 with production of the first vehicle, the SU7, in December 2023. The consumer electronics culture is just faster and cheaper. Many in the EV industry think that EV production will be totally commoditised over a relatively short space of time.

The bulls for Western world manufacture will cite the moat around AI, FSD and robotaxis. However, DeepSeek has shown clearly that the West's advantage in AI is not as big as was thought. The only true advantage for any 'value add' will come from the network effect, one of our key disruption lenses. If a small number of companies control significant portions of the autonomous fleet then they will have a data edge that will set them aside and create a significant competitive advantage. But why can't this advantage accrue to a company that already has the platform positioning like Uber? It makes sense to us that the Western world should focus on network benefits and maybe consider, for example, a Tesla/Uber combination rather than attempt total self-world dominance. Manufacturer and brand is definitely not the answer. Oh, and look out, both BYD and Xiaomi have distinct business units, backed with billions of dollars of R&D spend, working on a humanoid robot. I wouldn't bet against them winning this war either.

As big as AI? Weight loss drugs set to disrupt multiple sectors

DAVID GOODMAN, FUND MANAGER, GLOBAL EQUITIES TEAM

Initially launched in 2005 to treat type 2 diabetes, GLP-1 drugs such as Ozempic, Wegovy and Mounjaro have evolved into pioneering treatments in the battle against obesity and metabolic disorders. Pioneered by companies such as Novo Nordisk and Eli Lilly, this segment of the pharmaceuticals market with $22.5 billion of annualised sales is revolutionising industries well beyond healthcare, with dramatic consequences.

The increased uptake of GLP-1 is changing the size, shape and lifestyles of millions of people across the globe. With it, a discernible ripple effect across multiple sectors, from technology, sport and leisure to food and beverages, is taking place. For some companies, there are unforeseen economic benefits but others face significant disruption. Before this ripple becomes a tsunami, businesses and investors must be ready to capitalise on all the second-order repercussions. This is a fertile hunting ground for disruptive investing – the polarisation of winners and losers will be multi-fold.

What is GLP-1 and how does it work?

GLP-1 drugs mimic the natural GLP-1 hormone released after eating, helping regulate blood sugar and appetite. By stimulating insulin release, slowing digestion and reducing hunger signals, they address both diabetes management and chronic weight issues.

GLP-1's economic impact – greater than AI?

Morgan Stanley estimates that 24 million Americans could be taking GLP-1 drugs by 2035. Scott Galloway, professor of marketing at the NYU Stern Business School, suggests this health phenomenon could have a bigger economic impact on the US than AI. The statistics speak for themselves, with GLP-1 drugs potentially reducing the $1.7 trillion annual cost of treating obesity-related illnesses by 50-90%. Within the workforce, Goldman

Sachs suggests reduced obesity-related absenteeism could unlock $1.2-$2.4 trillion in annual GDP gains by 2035 and save healthcare systems an estimated $200 billion annually. At a micro level, users' changed behaviours and increased participation in social/leisure activities (for example, 5km park runs or circuit racing such as HYROX) have the potential to stimulate local economies.

Winners and losers in the GLP-1 revolution

The rise of GLP-1 is expected to significantly affect many industries ranging from fast food to healthcare. Big pharma and telemedicine clearly benefit from this, while the second order benefits create more nuanced opportunities and challenges for investors. For example, the wave of healthier lifestyles fuelled by GLP-1 drugs is poised to propel the sports and leisure industry into a new era. As more people lose weight, gain confidence and embrace physical activity, their appetite for activewear and subscriptions to gyms, fitness studios and health spas is likely to increase.

In the same vein, the rapid weight loss experienced by GLP-1 users and the issue of the so-called 'Ozempic face' are likely to prompt increased interest in cosmetic and medical aesthetics, from body sculpting to skin tightening procedures and beyond. For clothing manufacturers, the rise of the body-conscious consumer may result in a major shift in spending from accessories to clothing, with purchasers choosing clothes that fit better and make them feel good.

Life insurance companies that cover mortality risk could benefit from their clients' longer life spans and a reduction in healthcare claims and costs associated with obesity-related illnesses.

While traditional weight loss programmes, bariatric surgery procedures and diabetes treatment providers are the obvious losers, the medical device sector faces major challenges. Forecasts indicate a decrease in the need for surgical procedures such as knee replacements, often caused by complications related to obesity. One post-surgery study in the UK showed there was a 43% reduction in knee replacement revisions where GLP-1's led to a greater than 10% reduction in weight.

Food and beverage industry set for significant second order disruption

One sector under significant future pressure will be food and beverages, with increasing numbers of GLP-1 users changing their habits of a lifetime. Research from Cornell University and Numerator showed that households with at least one GLP-1 user reduces grocery spending by 5.5% after six months. Looking to improve their food choices, 62% of users prioritise nutrient-dense foods over highly processed and sugary snacks and the annual calorie intake per user has dropped by 8% to 12%. Companies such as Kellogg and Pepsico are already experiencing revenue declines, and US grocery behemoth Walmart has reported a surge in noticeably smaller grocery baskets. The industry will almost certainly need to innovate and adapt, offering increased lines of healthier, low-calorie products and focusing on premium and functional beverages. By the same token, restaurants will also be impacted, with many looking to revamp their menus to include healthier options and small-plate dishes.

The sugar market is preparing for significant changes. Doon Insights forecast a 65% reduction in the consumption of sugary drinks by those taking GLP-1s, and Morgan Stanley forecast an overall reduction in US sugar consumption of 3% by 2035 in the US, reversing the long-term trend of increased use. With GLP-1 also causing the suppression of alcohol cravings, manufacturers are already responding to a shift in consumer behaviour by increasing investment in no and low-alcohol beverages.

Conclusion

The impressive success of GLP-1 drugs marks a significant advancement in healthcare, presenting numerous opportunities for businesses to adapt and thrive in this changing environment. These drugs have the potential to be a transformative force for good in healthcare, the economy and society as a whole.

Businesses that promote healthier, active lifestyles and personalised wellness are more likely to succeed, while those that rely on high-calorie consumption or sedentary habits may encounter challenges.

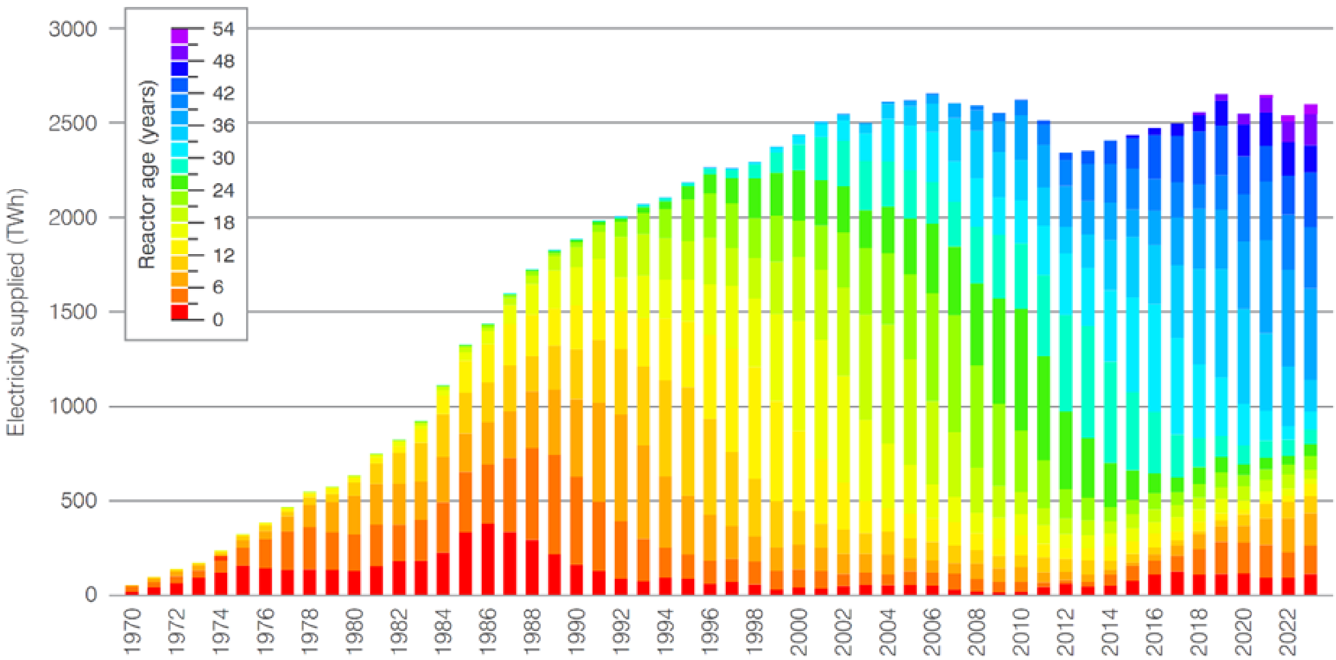
Nuclear renaissance: where are the opportunities?

KEVIN KRUCZYNSKI, FUND MANAGER, GLOBAL EQUITIES TEAM

In 1956, at the opening of Calder Hall, the world's first full-scale nuclear power plant, Queen Elizabeth II said: "This new power, which has proved itself to be such a terrifying weapon of destruction, is harnessed for the first time for the common good of our community." This marked the beginning of a golden age of nuclear power, which lasted from the mid-1950s to the mid-1980s. The Queen's speech reflected the optimism of the time, as governments promoted nuclear power as a clean, abundant and reliable energy source. By the late 1980s, the mood music had changed following a series of accidents that drove negative public opinion, rising costs and strict regulations – new nuclear construction projects struggled financially without heavy taxpayer subsidies. As a result, the West now has an aging fleet of power stations, some operating beyond their intended life, and the proportion of nuclear energy in the mix has stagnated and declined.

The global nuclear reactor fleet has aged:

Total global nuclear electricity generation by age of reactor



Source: World Nuclear Association, IAEA PRIS, 2023. Global Nuclear Industry Performance – World Nuclear Association

Was COP 28 the turning point for a new nuclear age?

The 2023 COP 28 climate talks in Dubai called for accelerating nuclear power deployment, with over 20 countries endorsing the goal to triple nuclear capacity by 2050. The UK aims to increase its nuclear power generation from 6GW to 24GW by 2050, while the US plans to grow from 102GW to more than 300GW over the same period. This will encourage companies to develop new technology and invest in supply chains for nuclear-grade components and materials.

Factors driving a new nuclear force?

Safety concerns and nuclear waste disposal remain critical issues, but several factors are driving the potential for a nuclear renaissance. Key amongst these are:

Energy security

In an era of heightened geopolitical tensions, nuclear power offers a stable and reliable energy source. The cost of energy in Europe spiked during the Russian invasion of Ukraine, underscoring the need for secure energy supplies. Against this backdrop, nuclear power plants can operate continuously, providing a dependable energy source.

Decarbonisation

Renewable energy sources, such as wind and solar, tend to be intermittent and not suitable to replace the stable base load requirements.

The AI revolution

The rise of AI is driving the demand for power-hungry data centres, which nuclear energy can potentially support. A Chat GPT query uses 10 times more electricity than a Google search. Microsoft recently announced a partnership with Constellation Energy to restart the infamous Three Mile Island power plant, and Alphabet and Amazon announced similar partnerships exploring small modular reactors (SMRs) that could power their data centres. Are we on the brink of a nuclear resurgence?

Technological advancements

The design of SMRs and new-generation (Gen IV) reactors come with advanced safety features, making nuclear power safer and more efficient. Significant progress is also being achieved in the recycling of spent nuclear fuel, which generally retains 90% of its energy.

Public awareness

There has been a noticeable shift in sentiment, globally, towards nuclear power, although there is still a need to better inform the public about the benefits and safety of nuclear energy.

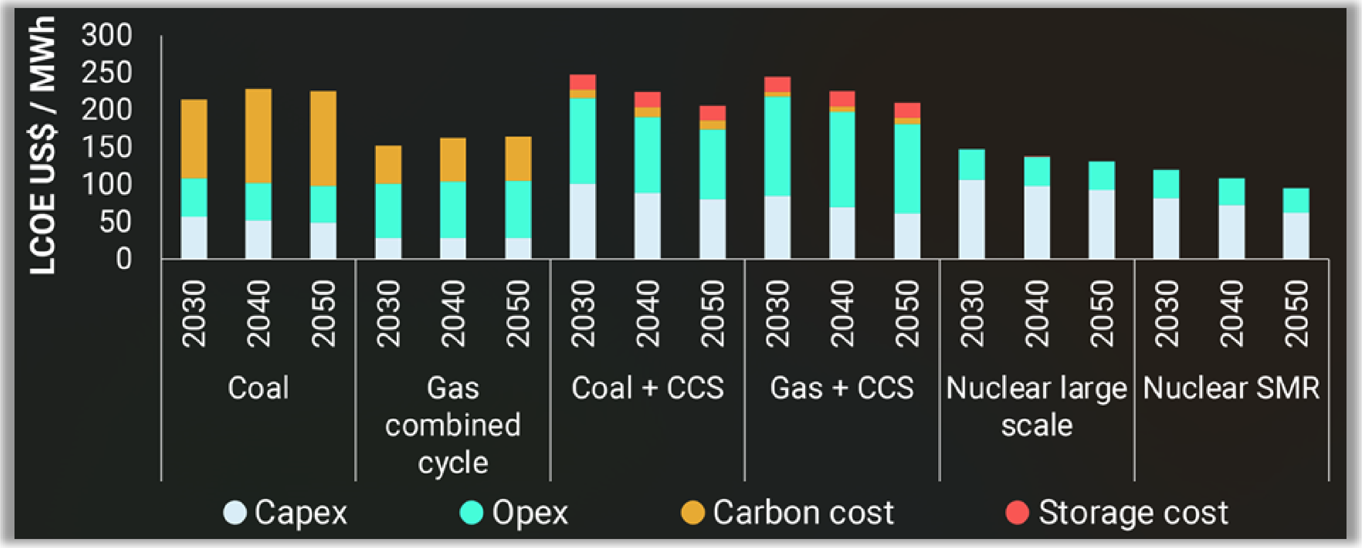
Global leadership

China has led the world in nuclear construction, and initiatives like Sapporo 5, a strategic partnership between the US, Canada, France, Japan, and the UK, have emerged to secure supply chains for US-led technological development.

Cost

Build costs are expected to trend down as production standardisation and economies of scale across the supply chain kicks in. This will gradually address the heavy upfront capex requirement. Wood Mackenzie estimates that nuclear energy is becoming more competitive when considering costs over the plant's lifespan using Levelized Cost of Energy (LCOE):

LCOE (US$/MWh): selected technologies, average values for Europe



Note: Full technology LCOE assumptions are available from Wood Mackenzie, including cost sensitivities on nuclear PWR LCOE forecasts.
Source: Wood Mackenzie European Power Service, May 2023. Horizons | The nuclear option | Wood Mackenzie

Small modular reactors

SMRs are advanced nuclear reactors designed to be smaller and more flexible than traditional large-scale reactors. They typically have a power capacity of up to 300 megawatts (MW) per unit (versus 1GW for traditional reactors), are factory-assembled for reduced construction time and costs, and can be deployed incrementally to match energy demand. SMRs incorporate passive safety features, enhancing overall safety, and can be used for electricity generation, industrial applications and remote areas with limited grid capacity. Rosatom has built a SMR on board a ship operating in Russia as a floating nuclear power plant, capable of providing up to 70mw of electricity in remote areas where building more conventional plants is difficult. Many of the concepts being discussed involve micro-reactors capable of operating next to industrial or technological infrastructure sites.

While fully commercial SMRs are still mainly in the conceptual stage and not yet in production, almost 50 SMR designs have been acknowledged by the IAEA. There is ongoing development to demonstrate their commercial viability, and partnerships with the big tech companies indicates there is strong interest in this type of technology.

Companies such as Rolls-Royce in the UK and BWX Technologies in the US possess extensive expertise in this field, having constructed small nuclear reactors for the Royal Navy and the US Navy for over six decades. Both have initiated ventures to investigate commercial applications of their technology.

SMRs will ultimately require less initial capital, offer scalability and flexible location options, and promise improved safety and security. While costs are competitive compared to traditional nuclear, these have room to come down over time.

Generation IV reactors

Gen IV reactors being planned and built now are expected to start operating from the 2030s onwards. These offer several advantages over previous generations, including reduced nuclear waste, significantly higher energy yield and greater fuel flexibility. They are designed with advanced safety features, aim for sustainable energy generation and have a clear life-cycle cost advantage. Overall, they represent a significant step forward in efficiency, safety and sustainability.

This leap forward in technology has been enabled by several breakthroughs, including advanced materials that withstand higher temperatures and radiation, fast neutron reactors for enhanced fuel efficiency and reduced waste, molten salt technology for improved safety and higher operating temperatures, closed fuel cycles for recycling spent fuel and using a broader range of fuels, passive safety systems that automatically respond to reactor conditions, and high-temperature reactors capable of efficient hydrogen production.

While SMRs have the potential to provide new applications for nuclear energy, Gen IV reactors will serve as replacements for the aging base load power stations. Their advancements in safety and efficiency might help address public concerns and decrease opposition to nuclear power.

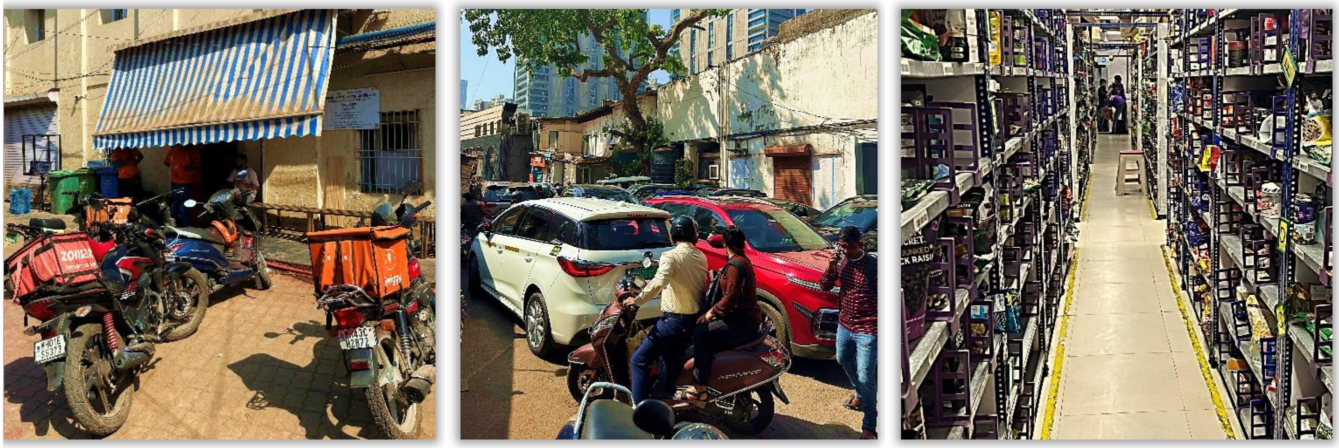
A new dawn?

Although progress has been made, the tangible benefits are still several years away. There is an increasing recognition among many Western countries of the need to support and develop nuclear supply chains. The requirement for energy security is expected to drive innovation and facilitate the transition of new concepts from the planning stage to implementation. This may signal the beginning of a prolonged period of nuclear energy expansion.

India: digital innovation drives grocery retail

EWAN THOMPSON, FUND MANAGER, GLOBAL EQUITIES TEAM

A recent trip to Mumbai was an excellent opportunity to check in on the burgeoning Indian quick commerce market, through meetings with an independent dark store franchisee and visits to dark stores operated by both Swiggy and Zepto, the two main competitors to market leader Blinkit (Zomato). Dark stores are the logistics backbone of quick commerce – small, strategically located warehouses catering exclusively to online orders. Designed to enable ultra-fast deliveries – usually in under 10 minutes, often as quick as just three to four minutes – dark stores are typically within a two to three kilometre radius of key residential hubs, with optimised and localised inventory, ranging from fresh foods and hot coffees to consumer electronics, personal care and children's toys. When an order arrives, 'pickers' have as little as 90 seconds to collect items and hand them over to the waiting delivery driver. The progress of each order is tracked in real-time through handsets and QR codes, with the average times for store and individual pickers prominently displayed on monitors.



Photos: Ewan Thompson

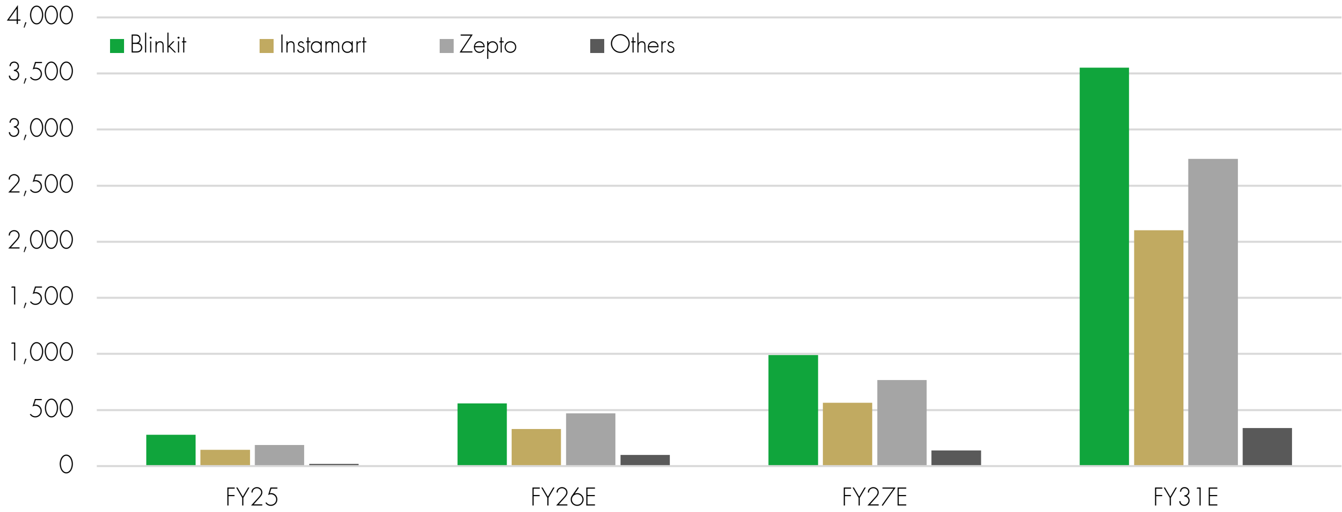
By necessity, the layout of the store is highly optimised for one-way traffic of fast-moving pickers (running, in fact) and the order frequency of individual items. With traffic snarled continually outside in the street, an army of pedal bikes and scooters weave between jammed cars to deliver their orders. Close central monitoring allows operators to respond rapidly to consumer trends and "not found" messages, with approximately 10% of store content localised. For example, several unfulfilled searches on Blinkit for goggles at an apartment complex with a newly opened swimming pool led to stock availability within 24 hours. And, of course, inventory is carefully calibrated ahead of upcoming events such as Valentine's Day or religious festivals.

Given the huge growth in demand, the major quick commerce players are currently in a phase of rapid store roll-out. Typically, operators set up an initial dark store for an area, and once it hits 1,500 orders per day, it will be 'split' by opening another nearby to service the area. Stores generally break even within three to nine months at roughly 1,000 orders per day. Blinkit – Zomato's quick commerce arm – is currently at the forefront of this rapid expansion, adding 216 stores in the last quarter of 2024, more than it added in the year to March 2024. Furthermore, it lifted its store-count guidance to hit 2,000 by December 2025 compared with December 2026 previously – essentially front-loading its expansion plans. With Swiggy listing in November last year, and Zepto planning an IPO for August this year, the key debate in the market in recent months has centred on the issue of competition and whether such strong store additions from multiple players can be sustained.

Zooming out to the big picture, India's local small vendor network – known as Kiranas – control up to 95% of the grocery market, with online quick commerce penetration merely 1%. The key to India's rapid growth potential is the fact that quick commerce operators can combine economies of scale with extremely low labour costs to supply products within a matter of minutes for less than they cost at local stores. Given India's extremely high internet penetration relative to its stage of economic development, this removes key barriers to rapid penetration growth. Comparable models in developed markets see labour costs at 25-50% of cart value – this is 15% in China and considerably lower still in India at less than 5%.

Indian quick commerce GOV sat at about $4 billion in March 2024 and estimates range from $50 to $80 billion by the end of the decade – a more than 10-fold increase that would still leave online penetration at around 3.5% of the grocery market. Moreover, geographical expansion and the addition of new categories – for example: basic apparel, electronics and food services – has seen TAM increase from $650 billion to over $1 trillion in just six months. Present in over 80 cities across India, quick commerce is expected to be present in 125 within 12 months.

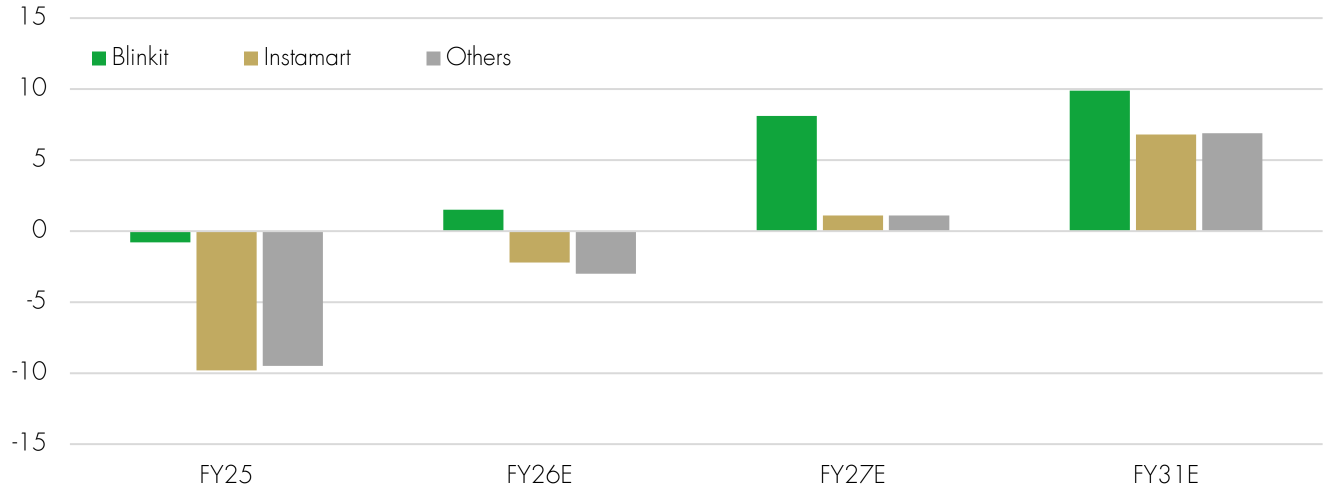
Quick commerce gross order value by player (Rs. bn)



Source: CLSA, 27.01.25

Given the scale of this opportunity, competition is an inevitable reality – the dark store visits underlined that differentiation is hard and execution is the key. First-mover advantage is therefore significant for Zomato, Swiggy and Zepto, which supports their decision to accelerate expansion ahead of potential additional entrants such as Amazon and Flipkart. The government has made it clear it will not tolerate aggressive price discounting and burning through balance sheets to take market share, and what has been encouraging is relative price stability among new entrants, with most discounting guided towards customer acquisition in new geographies. Unlike for food delivery or ride hailing – where companies needed very high discounting for category creation purposes – in quick commerce, it is merely a shift in channel. The unit economics already undercut organised retail, and with the convenience factor on top driving rapid adoption, discounting is less aggressive.

Adjusted EBITDA margin trend (%)



Source: CLSA, 27.01.25. Past performance is not a guide to future returns

In its December quarter results, Zomato showed GOV growth of 27% quarter-on-quarter (120% year-on-year) in its quick commerce segment Blinkit. While adding a significant number of new stores, importantly GOV per store remained flat, indicating that rapid growth at mature stores is offsetting under-utilised new stores. With customer retention improving and store break-even time extremely low (as little as three months), Blinkit has been able to add significant new customers without diluting AOV (average order value). The faster roll-out schedule has pushed back earnings break-even by a couple of quarters but, given the primacy of early-mover advantage – especially into new cities, which will be much more expensive to break into in coming years – this is an understandable move. In a rapidly growing market, Blinkit remains the clear leader with nearly 50% market share and aggressive plans to establish itself as the dominant player in an increasing number of new geographies and, as such, Zomato remains the best way to benefit from the ongoing rise of Indian quick commerce.

2025 OUTLOOK: where to invest in a more uncertain world

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

Listening to a recent All-In podcast gave a fascinating insight into the views of the new Trump administration (via the AI and Crypto czar, David Sachs) against those of the more traditional (Democratic) mindset of Larry Summers, former Treasury Secretary under the Clinton administration.

Summers likened the Trump administration to that of Peron in Argentina, citing policies as reckless and creating self-inflicted harm. Sachs stood up for the essential need for change and that America had to stop allowing itself to be 'used' by the rest of the world. The intense emotion of the exchanges highlights what world markets are dealing with – extremes of views imbued with intense emotion and the leader of the Western World driving new and therefore uncertain policy decisions. The impact is clear in this chart from the Financial Times reproduced in the attached tweet.

It is easy to see how an outsider could be forgiven for thinking that US economic policy is being created on the fly. The method of calculation for the significant tariff increases has been ridiculed and, at the same time, in just a week saw significant policy pull back and change, culminating in a 90-day suspension of all tariffs above 10% while terms are negotiated with specific countries.

The market voted very clearly on this uncertainty. In times of trouble, it would be normal for money flows to seek out the US dollar and treasuries as a safe haven. In this case, that has not happened. In fact, the US 10 year yield increased 60bps in the week following the tariff announcements, marking its sharpest increase since 1982. Gold, the Swiss Franc and Yen looked like the safer haven assets with gold rising to consecutive highs throughout the reactionary period post 2 April.

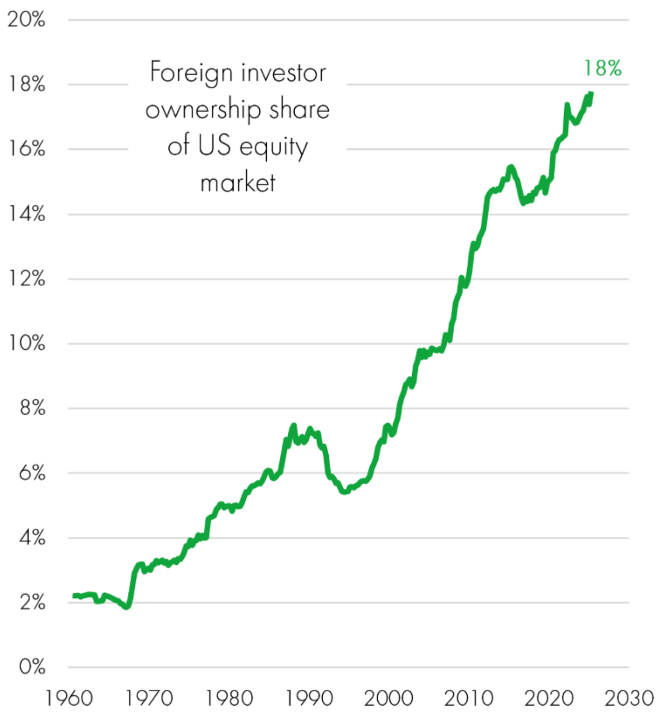
The move to suspend the new tariff levels on Wednesday 9 April, just a week after their introduction, resulted in a 12.5% up-move in the Nasdaq Index and +9.5% in the S&P 500 – the third largest single day up-move in equity market history, surpassed only by days in 2008 and 2001 during the Global Financial Crisis and the dotcom boom-bust. Incidentally, neither of these two bigger moves marked the bottom in markets during those two periods. Based on data showing significant short covering on this move higher, we have to believe it is likely the bottom is not in place here either.

Investment strategy from here…

As laid out in our January outlook article for 2025, we remain convinced the concentration in a narrow selection of US companies is set to change. Passive investment flows, American exceptionalism and the AI revolution have all contributed to a very narrow group of winners. This set up was already of concern but it was not clear what the catalyst would be for it to change – it seems quite likely that the new Trumpian economics might well be that catalyst.

Following a sharp rally after the US elections in November, 2025 has seen the beginning of a rapid unwind evident most clearly perhaps in the share price of Tesla. It rallied 40% from the election to the end of 2024; in 2025, the shares have fallen 37%. Another reversal of fortunes has occurred in semiconductors where the SOX index had a two-day drawdown of 17% in the week beginning 7 April – the worst such move since the 1970s. There is not a single SOX constituent that rates positively on the Global Equity Team's T-Score relative indicator. We strongly believe that risk reward now favours more diversification away from passive core index strategies, M7 and American exceptionalism. There is much to play for as the following charts from Goldman Sachs show.

International investors own a record 18% of the US equity market, as of Q4 2024



Source: Federal Reserve, Goldman Sachs Global Investment Research, 24.03.25

The US share of global public equity market cap has recently declined

Source: Worldscope, Goldman Sachs Global Investment Research, 24.03.25

The concentration of money flows into such a narrow portion of the market also leaves a level of vulnerability from the upcoming earnings season. We cannot see many companies brushing aside the tariffs and related earnings issues. At best, we may see guidance removed; at worst, it is likely that guides are lower. Investment levels are also likely to be cut as no one has any idea what the tax (tariff) implications will end up being. Again turning to work from Goldman Sachs, it is clear that most scenarios see the US market struggling to move sustainably higher.

Central forecasts around valuation estimates are highly sensitive

			2025 EPS scenario		
			Recession scenario	GS baseline	Bottom-up consensus
			$220	$253	$268
		YoY growth	*(-11%)*	*(+3%)*	*(+9%)*
Forward P/E	22x	Jan-25	*-4%* 4,850	*9%* 5,550	*16%* 5,900
Forward P/E	20x	5-year average	*-13%* 4,400	*0%* 5,050	*5%* 5,350
Forward P/E	18x	10-year average	*-22%* 3,950	*-10%* 4,550	*-4%* 4,850
Forward P/E	16x	30-year average	*-31%* 3,500	*-20%* 4,050	*-15%* 4,300
Forward P/E	14x	2018 low	*-39%* 3,100	*-30%* 3,550	*-26%* 3,750

Source: FactSet, Goldman Sachs Global Investment Research, based on 2025 EPS and forward P/E multiples starting from 4 April 2025 close

All this concern and likely relative derating of the US leads us to continue to favour diversification into other geographies. Europe remains very cheap historically; India looks like a relatively tariff unaffected growth story and we still believe that China holds value based on the significant de-rating of names there. In fact, one feature of the protectionist policy on IT and AI that America has been pursuing is that of reduced innovation in the US market itself. DeepSeek was a great case in point. Faced with losing access to the most powerful chipsets in AI, the Chinese have had to be far more innovative and they have been just that. Could the reluctance of the US to make their hardware available to China end up leaving them lagging in certain areas of innovation?

Within the US equity market itself, we believe diversification is also important. On a top level, the S&P Equal Weight is expected to outperform the S&P. We look towards similar types of diversification in US equity portfolios.

Finally, it seems clear that volatility and uncertainty are here to stay for the time being and so safe haven assets should form a bigger part of a diversified portfolio. Gold has been a stellar performer and that is likely to remain so; gold miners have also done well but still sit well below their all-time highs. Safe haven currencies like the Swiss Franc and the Japanese Yen have done well since the tariff announcement and this is also likely to continue making assets in these markets interesting.

In conclusion, risk levels have increased; Trumpian policy is unclear and subject to change on a coin toss. Equity risk premia increase on that basis and diversification both within the US equity market and more broadly on a geographic basis makes sense. The Q1 earnings season is likely to be very cautious and can only result in raised concerns for those companies that are in the eye of the tariff storm. We still see many opportunities in equities and the initial phase of volatility has resulted in most companies moving lower. This presents a clear opportunity where those moves are unjustified and we are looking to exploit these anomalies.

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For a comprehensive list of common financial words and terms, see our glossary at:
www.liontrust.com/benefits-of-investing/guide-financial-words-term

Key risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

All Liontrust Funds carry some degree of risk which may have an adverse effect on the future value of your investment. Therefore, before making an investment decision, you should familiarise yourself with the different types of specific risks associated with the investment portfolio of each of our Funds. There is no certainty the investment objectives of the portfolios or strategies mentioned in this document will actually be achieved and no warranty or representation is given, whether express or implied, to this effect.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

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