



STRATEGY OUTLOOK

March 2024

An aerial photograph of a coastal area. A light-colored road or path runs along the edge of a body of water. The water is a mix of light blue and green, with some darker patches. The sky is a deep, dark blue. The text "SUCCESS. TOGETHER." is overlaid in white, bold, sans-serif font across the middle of the image.

SUCCESS. TOGETHER.

Key takeaways-

- Party on.
- Politicians can't keep their fingers out of the cookie jar.

Markets are in party mode. Optimism, economic good cheer, and liquidity combine with such structural stories as AI, Bitcoin, Japan (now back at 34-year highs) and India to push markets higher. With such leader's fund managers and investors are being forced to chase performance. Earnings releases then smash expectations with talk of yet more share buy backs and its simply rinse and repeat.



The doomsayers are warning about the hangover quick with the multiple examples of when markets fall. Comparisons to 1999/2000 are easy arguments for caution but there are important differences. Nvidia is at the forefront of this rally and at the vanguard of the real driver - Artificial Intelligence. That's ultimately what the bet is. **Is AI the next industrial revolution?**

We might as well give our view. Yes, we think it is. Having said that stocks that go up 200% a year can just as easily fall 100% and have no impact on the underlying strategic trend. Competitive advantage comes and goes and there are always companies that can do it better, faster, and cheaper. However perhaps that's more acute in software while hardware (Nvidia) has natural significant barriers to entry. **AI is moving at such an exponential pace that it's almost a given that leadership will change.** The worlds former dominant chip maker (Intel) is now worth \$300bn less than it was in 2000.

The first graph highlights Nvidia, S&P, Apple, Meta, and Tesla as indices. Since Q1 2019 the S&P is up 82% whereas Nvidia is up 2028%. Apple a mere 417%.

"AI is the most important technology that has come over the last 50 years" AMD (Nvidia competitor) CEO Lisa Su

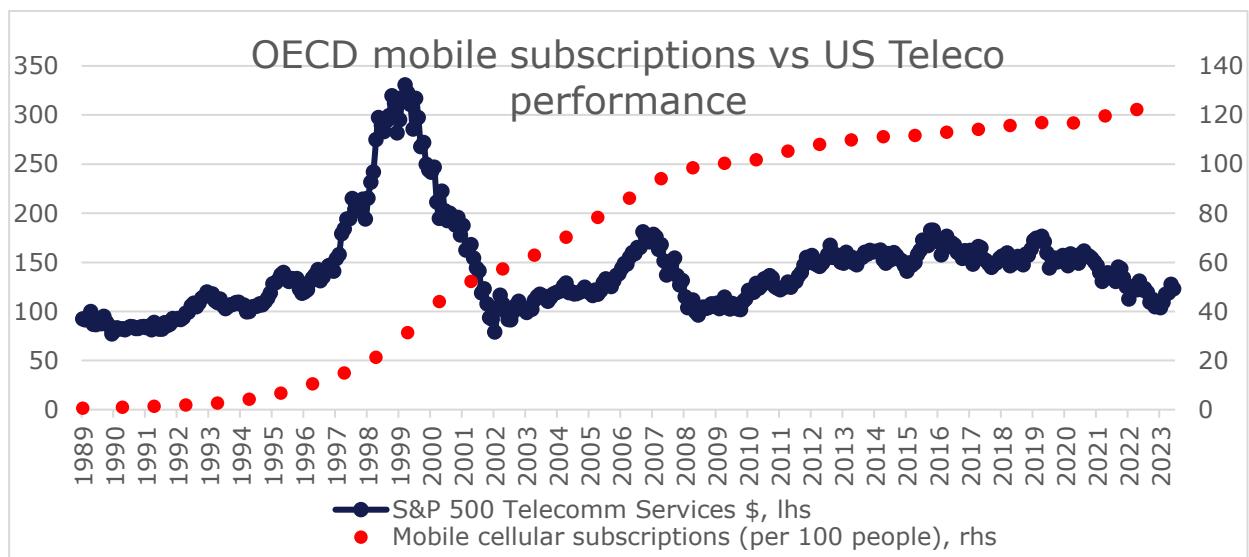


Perhaps the biggest difference to the last tech bubble back in 2000 is simple.

Nvidia and friends are making money and lots of it. Positive free cash flow of +40%, zero debt, rising product demand and likely buyback acceleration. Twenty-five years ago, anything with a ".com" in its name outperformed. Additionally, today there is very little evidence of excessive use of leverage from investors. It was the Fed aggressively hiking rates in 2000 that burst that bubble. The outlook today is more likely to see

(eventual) cuts. Valuations are expensive for both the US (now with a 70% weighting in the MSCI World index – a record) and Tech but earnings continue to exceed expectations and cuts can elongate the cycle. **The bulls will grab Keynes’ infamous quote that markets can stay irrational longer than most people can stay solvent.** However, US indices are clearly top heavy indeed at levels last seen in 1929 driven by.....Nvidia. The market cap of the magnificent seven is larger than all countries except China, Japan, and the US.

The next chart plots mobile subscriptions versus the performance of the US telecommunication sector. The trend or adoption in this example is akin to e.g., steam engines, motor cars, sliced bread, and eventually AI/Blockchain/air conditioning in India etc. The takeaway in this single example was that Telecoms effectively flatlined after their 1999 bubble.



Bitcoin is just 8% of the market cap of Gold. **As well as AI the crypto/blockchain trend remains ultimately very early.**

The US economy continues to move away from a feared recession with a labour market that is robust and increasing productivity. This is going to support stocks. However, there are plenty of issues today and looking forward. Two major issues are the fiscal mess (the US Govn’t this year will spend \$870bn on interest payments alone i.e., more than on Defence) and the state of the commercial real estate sector (and what that means for the banks). We have discussed this fiscal mess in past writings, **but it remains our base case that further support from US authorities** will arrive to band-aid the bond markets (\$8.9trn of Government debt matures in the next 10 months) and push the USD weaker. **In that environment stocks, gold, bitcoin should outperform.**

Over the month we added exposure to the Hang Seng which we feel has become far too cheap. The narrative was too bearish and investor flows reflect this. Yet this is a market that trades on a P/E of 5.5 with a dividend yield of 4.3%. By comparison the Nikkei trades with a P/E of 25 and yield of 1.6%.

It’s now the 4-year anniversary of the covid lockdowns. Its only worth a highlight as its still having a huge negative economic and social impact today. Over the month we saw

Tucker Carlson interview President Putin. It's an interesting watch. Another anniversary (2 year) is the Russian invasion of Ukraine sadly with no end in sight. The situation looks like Russia has made territorial gains and the only answer from the West is to talk about now needing boots on the ground and pushing for Ukraine to join NATO. For markets the war is priced in and so it's just waiting for that eureka moment when politicians work out that this circus isn't a vote winner and why have we ignored history.

We continue to believe **imminent rate cuts look increasingly unlikely**. However there remains a lot of support for markets in a year when many people globally go to the polls. Cash is offering decent returns, but these depend on the level of inflation. We continue to favour **stocks over bonds**. US stocks aren't cheap and if we see further USD weakness then many global stock indices offer value.

Bond investors continue to worry about a recession, but stimulus and liquidity remain robust and, if anything, strengthening. Further stimulus from authorities is our base case, there is too much debt today and tomorrow as politicians continue to spend like it's going out of fashion. However, markets never go up in a straight line and we should certainly expect bouts of volatility to test our resolve.



Ultimately, economies and society are still dealing with the effects of shutdowns and stimulus programs from 2020/2021. Higher public deficits and ageing populations will continue to meet rapidly advancing technology and hence productivity growth. Political change too is very likely globally with the uncertainty of higher and more volatile inflation cutting into people's pockets. So let the party continue for the

foreseeable future aware that the piper always needs to be paid at the end of the night.

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