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INVESTMENT COMMENT

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- **A Decisive Election Outcome**

  It was less of a surprise that Trump won the US elections – but a big surprise he won by such a large margin. He won the electoral vote as well as the popular vote on the back of promises to create jobs, control inflation and curb illegal immigration. Markets gained more than 3% over two trading sessions as investors appreciated the certainty brought by the Republican Party's historic "red sweep" - victory in the White House, Senate, and House of Representatives. This outcome suggests a shift towards more tariffs (mostly against China) and reduced U.S. engagement in global politics, but drastic measures seem unlikely.

- **U.S. Stock Valuations may be high**

  The U.S. equity rally may run out of steam soon. Goldman Sachs recently projected that the S&P 500 will yield a modest 3% annualized nominal return over the next decade, citing high valuations as a primary factor. Similarly, Berkshire Hathaway announced that it reduced its holdings in Apple by approximately 25% due to valuation concerns. Another potential drag is the concentration of the market: the top 10 stocks in the S&P 500 comprise more than a third of its market capitalization. This should bode well for U.S. small- & mid cap companies.

- **China's stimulus**

  "The tragedy of Asia is that Japan is a profoundly socialist country on which capitalism was imposed, while China is a profoundly capitalist country on which socialism was imposed. But each will naturally drift back to its natural stage" observes George Friedman, founder of Geopolitical Futures. Amid its economic challenges, China has taken steps to stabilize its real estate sector and support its stock market through interest rate cuts and other financial incentives, with more details expected soon. While this month's announcement focused on reducing the indebtedness of local governments, additional measure to boost consumption could come at a later stage.

- **Assess China Beyond its Stock Market**

  GaveKal argues that China's economic strength lies in its robust industrial sector and resilient banking system. Despite the real estate downturn and the dramatic decline in equities (until recently), China's economy has shown notable resilience. Banks have shifted their lending from real estate to manufacturing. Its trade surplus is expected to hit record highs. China is committed to advancing industries such as semiconductors and artificial intelligence to counter efforts of the West to restrict its technological growth.

- **In Gold We Continue To Trust**

  Gold has potential for further gains given continuous Middle Eastern tensions, limited new gold supply, BRICS countries proposing a gold-backed currency and widespread under-allocation to gold. Hedge fund manager Paul Tudor Jones concurs: "Long Gold, long Bitcoin, and long commodities, because inflation is inevitable to fix the U.S.'s deficit problem."

- **Asset Allocation**

  We remain neutral on equities overall but foresee a sector rotation from large tech stocks to sectors such as banking, industry, defense and utilities (energy) as well as into small- &mid-caps. We cautiously recommend exploring Chinese equities. Long-duration U.S. bonds remain a valuable hedge and diversification tool, while short-duration high-yield bonds may be attractive for investors with higher risk tolerance.

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