

## INVESTMENT COMMENT

March 2025

- **From MAGA to MEGA (Make Europe Great Again)**

Trump has given European leaders a wakeup call. A laggard for many years, Europe is committing to higher public spending. Funds need to be re-routed from social welfare and bureaucracy into defense. An additional boost will come from Germany's pledge to rebuild its aging infrastructure. Attractive valuations in Europe are enticing international investors as they look for diversification away from unpredictable U.S. policy changes. The most obvious beneficiaries are cyclical companies including banks and infrastructure companies.

- **Has China Bottomed Out Yet?**

Thanks to strong exports, President Xi's re-focus on the private sector and the AI boom on the heels of DeepSeek, Chinese equities had an impressive start in 2025. Chinese tech stocks (Hang Seng Tech Index) lost 45% between June 2021 and end 2024 while the Nasdaq 100 gained 44% during that period. There is a reversal this year. The Hang Seng Tech Index is up 37% through mid-March while the Nasdaq 100 is down 7%.

Because consumer confidence had been profoundly shaken by the real estate market crash, Xi has announced measures to get his citizens to spend again. The leadership appears to be making a 180 degree turn from its post-pandemic policies, which bodes well for its economy.

- **Tariffs Are Poison For Global Prosperity**

Free trade is the basis of global prosperity and tariffs negatively impact free trade. As Ronald Reagan said in 1982, introducing tariffs is like shooting a hole in the boat of free trade. Trump's proposed reciprocal tariffs would be poking more holes into that boat. With higher inflation, everyone loses. Tariffs and trade restrictions also force foreign competitors to reengineer and innovate: the rise of China's chip manufacturing prowess is a case in point.

- **In Gold We Continue To Trust**

Gold has surpassed the \$3000 mark. Even though gold surged more than 40% last year and another 13% this year already, we are convinced that this run is not over yet. Demand from central banks continues to be strong as they diversify away from the US dollar. After four years of selling physically backed gold ETFs, investors have become net buyers again.

A Swiss company has been busy melting down and recasting London-traded 400-troy-ounce gold bars which weigh about 12.5kg into New York-traded 1kg gold bars (size of an iPhone). The fear of tariffs on gold has further increased demand for physical gold in New York. This pushed the price in New York higher than in London.

Another way to gain exposure is through gold mining companies that are rapidly improving their profit margins and undergoing increased consolidation activity.

- **Asset Allocation**

We remain neutral on equities overall but foresee a rotation out of large tech stocks into banking, infrastructure and defense. In these volatile times, we recommend to stay close to home, i.e. have reduced exposure to foreign exchange and risky assets. Typically when there is market uncertainty, the US dollar rallies. It is not the case this time, which could indicate a loss of faith in the US leadership and its economy.