Incrementum All Seasons Fund

- in pursuit of real returns -

2025 / 01

Seasonal Reflections

More shadow than light?

Dear Readers,

the first issue of my *Seasonal Reflections* in the new year is always the winter issue. It gets published at a time of year that offers more darkness than light due to the cold climate of our latitudes and is considered by many to be the low point of the seasonal cycle. The accompanying photo illustrates this well, and I chose it because it suitably reflects the mood of many IASF investors when they look back at 2024. After all, our investment year seemed also to be filled with more shadow than light.

The fields around Schaan, 29DEC2024, HGS' photo

Looking at last year’s headline performance only, this impression is certainly correct. Nevertheless, this seems to me to be too superficial and short-term a view, and I will therefore try to put the situation into perspective on the following pages.

Firstly, however, I would like to take this opportunity to briefly inform you that Ms. Anja Förster left the IASF team at the end of last year. Over the course of the year, it turned out that both sides had different expectations and ideas about our cooperation, which is why Anja decided to devote herself to her family for the time being and to seek her professional fortune elsewhere in the longer term. I would like to take this opportunity to thank her for her work over the past year and wish her all the best for the future.

In prior years, we have mostly published the first issue of *Seasonal Reflections* in February, as this corresponds to the usual 3-months rhythm. However, as we always use the first issue of the year to conclude and review the past year, I have decided to rush this one in order to publish it earlier, as a large part deals with a review of 2024, which becomes less relevant with the progress of time.

I am also doing this in anticipation of the upcoming FONDS professionell Congress 2025 in Mannheim on January 29 and 30, at which the entire Incrementum fund management team will be present for the third time in a row. And as I will be meeting some IASF investors there in person, this seems to me the appropriate preparatory reading material 😉 ...

Ready for Mannheim, LinkedIn

Appointments at the congress may be booked here conveniently and on a *first-come, first-served* basis, and I'm looking forward to many constructive and insightful discussions!

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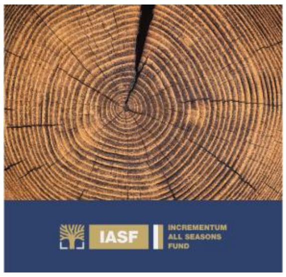


IASF Activity Report 2024

The following text is expected to be published towards the end of March as the fund manager's / company's **activity report** respectively portfolio manager review – in a more concise version and without the graphs inserted here for illustrative purposes – in **IASF's Annual Report** for 2024. But before we continue, please note the following:

2024 was a turbulent year, marked by two regional wars and plenty of political upheavals. The USA experienced a presidential race that, in addition to the usual theatrics, also saw an assassination attempt on the life of the polarizing challenger, which almost ended fatally. In the end, Donald Trump clearly prevailed in this race against his weak opponent Kamala Harris, who stood for the preservation of the status quo and had stepped in at relatively short notice for the incumbent Joe Biden, who had to pay tribute to his advanced age.

Frame by frame: Trump survives assassination attempt, Reuters, 16JUL2024

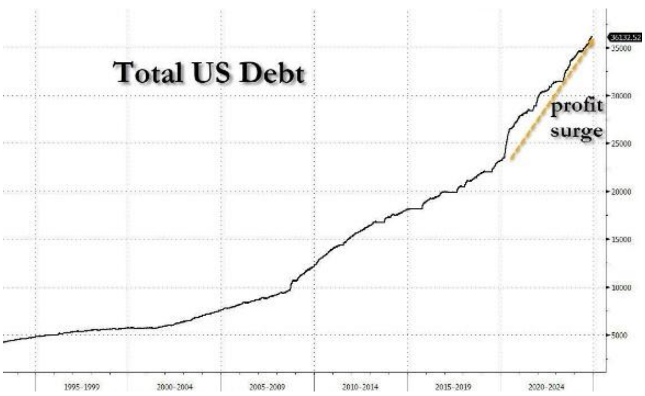
In the UK, the Conservative government under Rishi Sunak was replaced prematurely and with a clear majority by the Labour Party under Keir Starmer, who by year-end had seen his approval ratings slide back to levels that had cost his predecessor the office. Meanwhile, in France, the laboriously formed government of Michel Barnier fell apart, and Germany also experienced the premature end of its "traffic-light" coalition government, after Chancellor Olaf Scholz failed on the vote of confidence.

Vote of confidence and early elections, Bundestag.de, 11DEC2024

All this is exemplary for the ongoing loss of trust in the political system as well as the crumbling political centre in the democratic nations of the West. At the same time, the war in Ukraine entered its third year, in which the aggressor is slowly gaining the upper hand, while in the West, the willingness to continue supporting the defense of Ukraine with money and weapons seems to be waning. Meanwhile, the war in the Middle East is in its second year. Here, Israel has been fighting Hamas in the Gaza Strip as well as against the Shiite militia Hezbollah, while simultaneously engaging in rocket fights with Iran. In addition, long-term ruler Bashar al-Assad was overthrown in Syria, leaving a power vacuum.

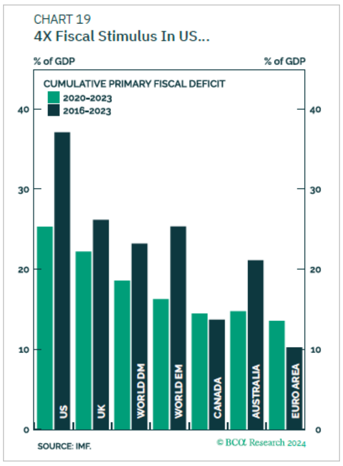
Overall, the world is in a state of upheaval at the beginning of 2025. The prosperity gains of a long-term phase of globalisation threaten to turn into losses in the face of a trend towards reshoring and deglobalisation. Meanwhile, politically we are moving towards a multi-polar system with increasing regionalisation, which goes hand in hand with growing nationalist tendencies. Both are strongly influenced by the economic and political rise of China, which, in cooperation with Russia and large parts of the BRICS / developing countries, has risen to become a challenging world power. At the same time, the internal problems of the Middle Kingdom, triggered by increasing restrictions on individual freedom in the country, as well as the associated capital flight and weak growth, are dimming the outlook for its further rise.

The problems in the nations of the democratic West, led by the USA, should not be underestimated either. Above all, political polarisation is creating increasing uncertainty, while a growing government share in the economy is having a paralysing effect on growth, and the mushrooming dirigisme is meeting with growing popular resistance. At the same time, the loss of competitiveness is becoming increasingly apparent. - Whether these problems can be tackled and solved seriously and effectively under a Trump administration or under the various other newly elected or to-be-elected governments in the West seems rather doubtful at present.



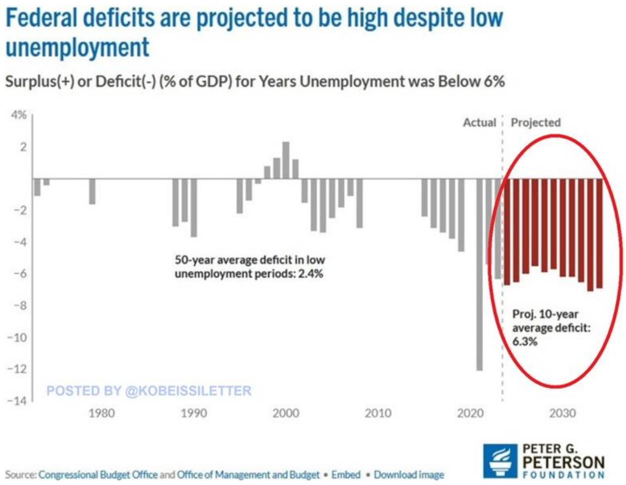
US government debt in USD bn; Haymaker, 3JAN2025

All of this is overlaid by excessive international debt, which has increased explosively since the Covid pandemic, especially in public budgets, and has thus financed the growth of the economy as well as the governments' share in it. The often-cited US exceptionalism, which is generally attributed to and based on the significantly higher growth rates in the US economy versus its Western peers, is effectively founded on a more aggressive US national debt expansion.



M'tourist Private Feed Recap, 7JAN2025

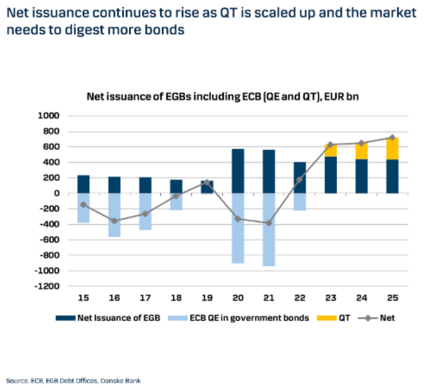
According to BCA research, the cumulative increase in the primary deficit of the US budget during the period from 2016 to 2023 amounted to around 37% of GDP, while the comparable figure for the Euro area was around 10% of GDP (for more details please refer to the graph on the right). This means that the USA has subsidized and added over 2% p.a. MORE to its economy via deficit spending than the governments of the eurozone did. This leads to the conclusion that higher US economic growth was actually mainly fueled by higher deficit spending and not by higher productivity and innovation. And it also does explain stronger profit growth for US companies.



@KobeissiLetter, X, 2JAN2025

But with a national debt that is now well over 100% of GDP, the question arises as to how sustainably such an expansive borrowing policy can be continued and what consequences it may eventually have. Of course, this applies not only to the USA, but also to Europe and Japan. However, growth and profits in the USA appear to be more dependent on the significantly stronger increase in government debt than elsewhere, making the long-term outlook for the US in our view even less sustainable.

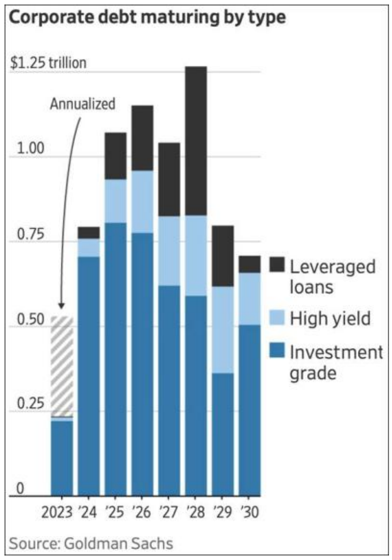
Global debt now amounts to 360% of GDP and is therefore increasingly becoming an obstacle to growth, particularly as higher nominal interest rates have led to a disproportionate increase in debt servicing cost. At the same time, the future Trump administration is threatening to significantly increase import tariffs, which would trigger a corresponding surge in inflation in the US. If interest rates are cut further at the same time, this will mean a weaker dollar, which we believe is inevitable in the longer term. In addition to the similarly evolving debt cycle in Europe, Japan and China, the long-term demographic cycle has also reached a point where it is increasingly creating headwinds for economic growth, thus helping to lay the foundation for our longer-term stagflationary outlook. However, market participants are focusing exclusively on the anticipated, but yet to be proven, positive impact of technological leaps (AI) and the expectation of a significant deregulation push (especially in the US, unfortunately not in Europe) on productivity and thus price levels. The result has been a reduction in risk premia, which in our opinion cannot be justified by the macro situation as we see it.



@MacroAlf, X, 2JAN2025

The situation at the turn of the year, which is characterized by quantitative tightening (i.e., central banks reducing their balance sheets by selling off government bonds) in most advanced economies, should not be underestimated. The tightening liquidity situation in the market will mean that global borrowers (both public and private) must for the time being increasingly compete for a shrinking liquidity pool. For example, European investors alone will have to raise an estimated EUR 750 billion in 2025 to absorb the net new issuance of government bonds.

However, it is not only the public sector that has a growing need for capital, but also the corporate sector. As the chart on the right shows, we are at what is colloquially called a "*maturity* wall" in financial market circles (see chart on the right for US corporate refinancing needs). This wall was effectively built when the corporate sector encountered elevated financing requirements during the Covid crisis and covered these at then extremely low interest rates, mainly in the medium-term maturity range. This will result in a significant increase in refinancing requirements in the coming years, which will have to be absorbed by the market, and which will result in a higher interest burden for the companies affected. *Ceteris paribus*, this should thus have a negative impact on corporate sector profit margins.

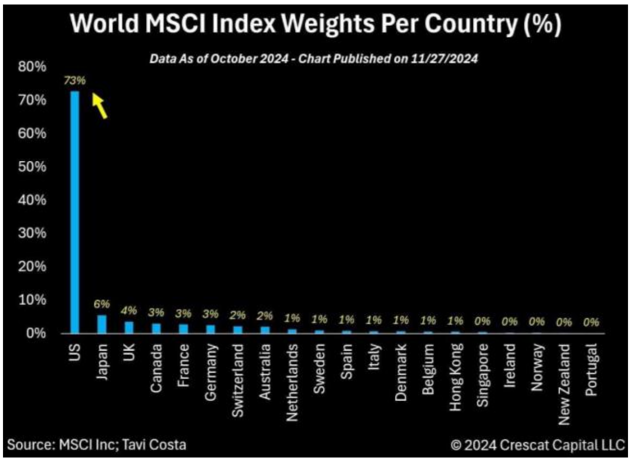


Friday Speedrun, B. Donnelly, 10JAN2024

10-year US yields, Bloomberg , John Authers, 8JAN2025

In the absence of renewed attempts at monetisation through QE, i.e. the resumption of government bond purchases by central banks, this competition for new capital can only be won through a combination of higher prices (i.e. interest rates) and possibly government intervention in the freedom of capital flows (financial repression). The former is already visible on the market due to the clear trend reversal in long-term interest rates shown in the graph on the left, while the latter will also become apparent over the course of the year in our opinion.

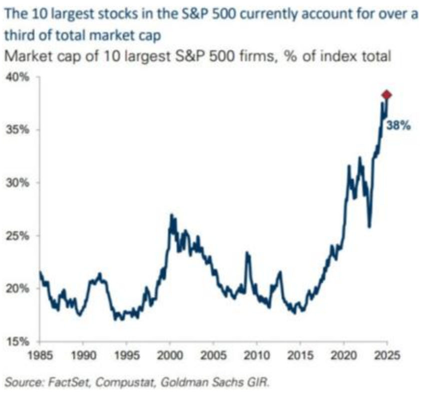
In view of this situation, investors were surprisingly willing to take risks in 2024. Equity market performance rankings were dominated by US large caps, which left most foreign equity markets far behind, while bond markets mostly suffered losses.



@dailydirtnap, X, 9JAN2025

The fact that US equities now account for around three quarters of the global benchmark MSCI ACWI (All Countries World Investable) Index has been noted in our *Seasonal Reflections* with a disbelieving shake of the head before, as the real share of the US in the global economy is closer to 20-25%. At the last cyclical stock market peak at the end of 2021, i.e. before the last larger market correction, the US share of the MSCI ACWI was "merely" at a then already hardly justifiable high of 61%.

US equities led by the *Magnificent 7* and other large cap stocks were the dominant equity market performance drivers in 2024. Unfortunately, our **Incrementum All Seasons Fund (IASF**) was not only not invested in this segment for valuation reasons but even held significant short positions both in Nasdaq 100 and S&P 500, which are dominated by these stocks, for hedging purposes, which explains a large part of the disappointing annual performance. In fact, every time we thought things couldn't get any better for these indices in 2024, they broke through to new highs.



The MacroTourist, Kevin Muir, 3JAN2025

The last push came after the US elections in November but lost all momentum in December. As a result, both Nasdaq 100 and S&P 500 closed the year 5% / 4% respectively below their record highs in December, and the bull market looked increasingly old and tired. However, this was still enough for an impressive annual gain of 24% / 22% for Nasdaq 100 and S&P 500. The chart on the left, which depicts the share of the combined market capitalization of the top 10 stocks in the S&P 500 at 38%, illustrates on how few legs this rise was built on. (If they were equally weighted, their share would be 2% instead).

The enormous influence of a few stocks on the market-leading equity indices is also illustrated by a comparison of the performance of the equally (and therefore not market capitalisation) weighted versions of the Nasdaq 100 and S&P 500, which rose by just 6% and 11% respectively over the course of the year. The US Value Line Geometric Index even closed the year with a gain of just 3%, while Morgan Stanley reports the performance of the momentum factor at 58% and that of the value factor at -18%.

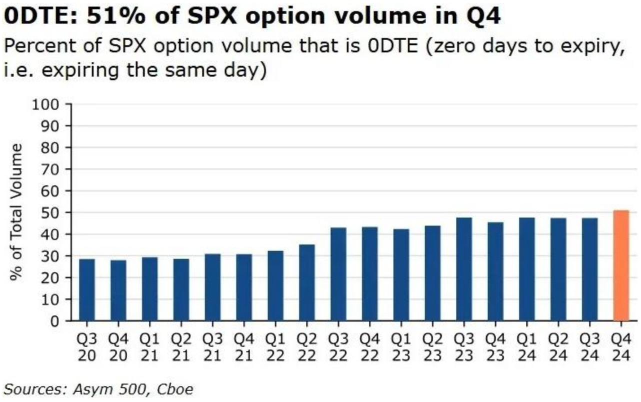
MS Factor Baskets	YTD % Return
US Momentum	57.59%
US GROWTH	20.94%
US 3-Month Momentum	18.24%
US 6-Month Momentum	16.77%
US Size	10.00%
US Beta	8.54%
US Leverage	8.05%
US Quality	3.42%
US Realized Vol	-2.39%
US Dividend Yield	-12.95%
US Passive Factor	-16.36%
US VALUE	-17.85%
MS Factor Neutral Indices	**YTD % Return**
MS Factor Ntrl US Mom	24.72%
MS Factor Ntrl US Size	1.71%
MS Factor Ntrl US Sh Int	-2.83%
MS Factor Ntrl US Beta	-4.54%

MS Factor Baskets	1D % Return
US VALUE	1.67%
US Dividend Yield	0.77%
US Leverage	0.55%
US Passive Factor	0.50%
US Quality	0.13%
US Size	-0.56%
US GROWTH	-0.89%
US Realized Vol	-1.23%
US Beta	-1.28%
US 3-Month Momentum	-1.57%
US Momentum	-1.58%
US 6-Month Momentum	-1.58%
MS Factor Neutral Indices	**Today % Return**
MS Factor Ntrl US Beta	-0.19%
MS Factor Ntrl US Size	-0.19%
MS Factor Ntrl US Mom	-0.19%
MS Factor Ntrl US Sh Int	-0.28%

Source: MS Thematic Strategy as of 12/31/2024

Note: YTD numbers represent returns as of the previous trading day

Equity (performance) factors according to MS, @AggieCapitaList, X, 31DEC2024



PauloMacro's Substack, 10JAN2025

Meanwhile, speculation, which had become increasingly concentrated towards the end of the year, was reflected in the fourth quarter by increased retail participation and record flows into leveraged ETFs and 0DTE-(Zero Days To Expiry-)options, which accounted for as much as 50% of the S&P500 option volume during that period. - It seems that investors have completely forgotten that they are wearing rose-coloured glasses.

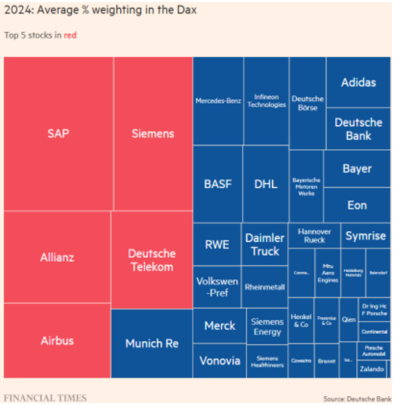
Outside the USA (and based on ETF performance), Argentina was the star performer in 2024 (+63%). Unfortunately, this does not mean that 2024 was a good year for all EM equities. Peru, Malaysia, China (+18%) and Turkey still managed to achieve double-digit returns, but there were also many markets in the red, including the Philippines, Thailand, Chile, Vietnam, Indonesia, South Korea and Mexico, led by Brazil (-30%).

Global Equity ETFs: 2024 Total Returns (in US $)

Country/Region	Ticker	2024 TR	Country/Region	Ticker	2024 TR	Country/Region	Ticker	2024 TR
Argentina	**ARGT**	**63.5%**	India	INDA	8.6%	Ireland	EIRL	-1.6%
Israel	EIS	34.5%	South Africa	EZA	7.3%	Thailand	THD	-2.2%
US	SPY	24.9%	Japan	EWJ	7.0%	Poland	EPOL	-2.5%
Singapore	EWS	22.1%	United Kingdom	EWU	6.8%	Norway	NORW	-2.5%
Peru	EPU	21.8%	Spain	EWP	5.8%	Switzerland	EWL	-2.8%
Malaysia	EWM	19.5%	Qatar	QAT	5.2%	Sweden	EWD	-3.9%
China	MCHI	17.7%	Colombia	GXG	4.7%	Denmark	EDEN	-3.9%
Taiwan	EWT	17.2%	Austria	EWO	4.1%	New Zealand	ENZL	-4.9%
Total World	VT	16.5%	EAFE	IEFA	3.3%	Finland	EFNL	-5.2%
UAE	UAE	15.3%	Eurozone	EZU	2.3%	France	EWQ	-5.6%
Turkey	TUR	12.9%	Netherlands	EWN	1.7%	Chile	ECH	-8.6%
Canada	EWC	12.4%	Australia	EWA	1.6%	Vietnam	VNM	-11.1%
Kuwait	KWT	11.3%	Belgium	EWK	0.2%	Indonesia	EIDO	-12.9%
Italy	EWI	10.3%	Hong Kong	EWH	0.0%	South Korea	EWY	-20.5%
Germany	EWG	9.8%	Saudi Arabia	KSA	-0.2%	Mexico	EWW	-28.2%
Greece	GREK	9.5%	Philippines	EPHE	-1.4%	**Brazil**	**EWZ**	**-30.5%**

CREATIVE PLANNING · Data via YCharts as of 12/31/24 · @CharlieBilello

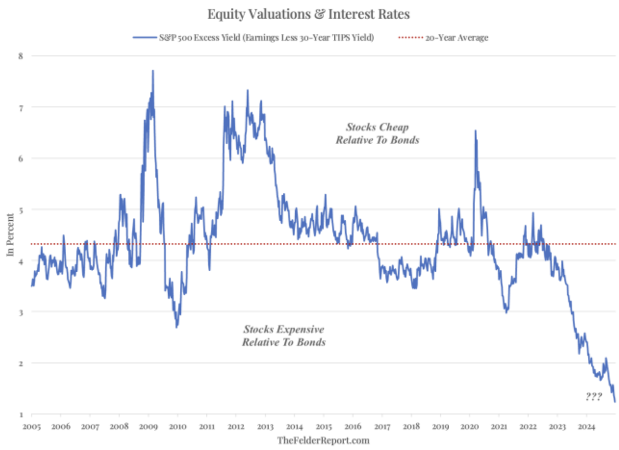
@charliebilello, X, 2JAN2025



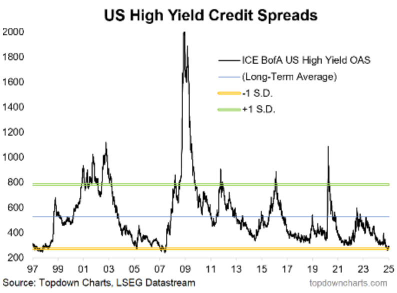
Financial Times, 24DEC2024

In Europe, equity markets were far less euphoric, as a far more subdued 5% increase in the Euro STOXX 600 clearly illustrates. The surprise stand out among the major European indices was the German DAX, which managed to advance nearly 19%. Similar to the situation in the US, the rise in Germany was also driven by only a handful of stocks, led by SAP (+70% full year performance), which benefited from the AI hype and alone was responsible for 40% of the index's rise. Other key drivers were Rheinmetall (+114%), Siemens Energy (+420%), Allianz (21%) and Munich Re (+30%).

Meanwhile, bond markets suffered a renewed rise in long-term interest rates and consequently posted negative performances. For example, 10-year US government bonds saw yields rise by around 70bp to 4.57% in 2024, while German bond yields "only" rose by 33bp to 2.36%. Conventionally, higher interest rates would be seen as a headwind for equities, but there have been exceptions in every investment bubble. As a result, the S&P 500-*Earnings Yield* currently sits at the narrowest gap over TIPS yields in at least the last 20 years.



S&P 500 Earnings Yield minus 30Y-TIPS Yield (real interest rate), Double Bubble, The Felder Report, 3JAN2025



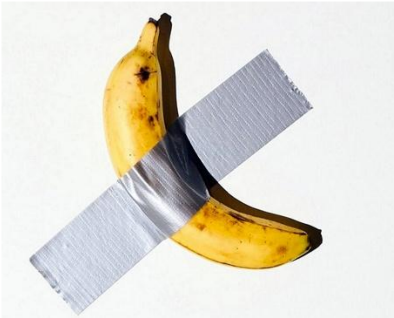
Topdown Charts; Substack, 10JAN2025

The prevailing risk appetite is also reflected in the spreads for high-yield bonds, which this past November fell to their lowest level since 2007 in the US. This means that they are currently more or less at the same level as just before the Great Financial Crisis in 2008, which implies a risk premium that is far too low compared to government bonds if one takes historical default risks during a recession in consideration.

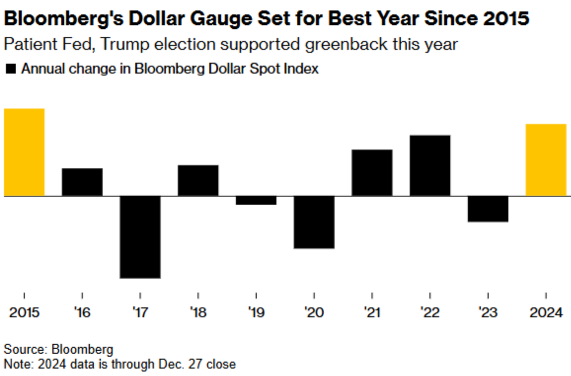
The level of risk appetite is also evidenced by the renewed boom in crypto currencies, where not only *Bitcoin* (+120% in 2024) benefited from the future US president's pro-crypto stance, breaking through the USD 100,000 mark for the first time, but also *Dogecoin*, which has been repeatedly promoted by Trump's closest advisor Elon Musk (+350% in 2024), while a new 'currency' such as *Fartcoin* reached a total valuation of well over USD 1 billion in less than three months.

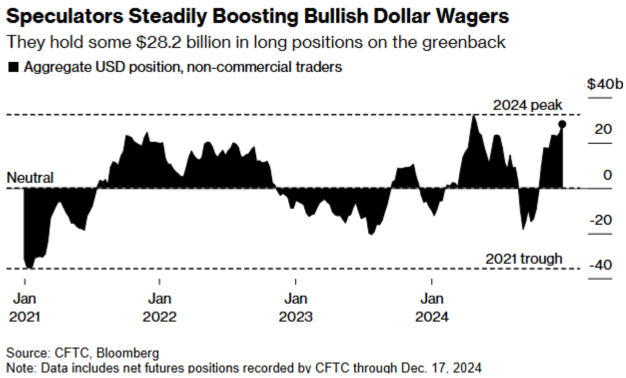
Therefore, it is hardly surprising that the art scene experienced its "highlight" in November with the sale of "Comedian", a banana stuck to a wall, for USD 6.2 million to a Chinese crypto-millionaire... – who subsequently consumed this work of art.

In view of all this, we cannot help but wonder what has become of the "rational investor"?



Comedian, Business Insider, 4DEZ2024



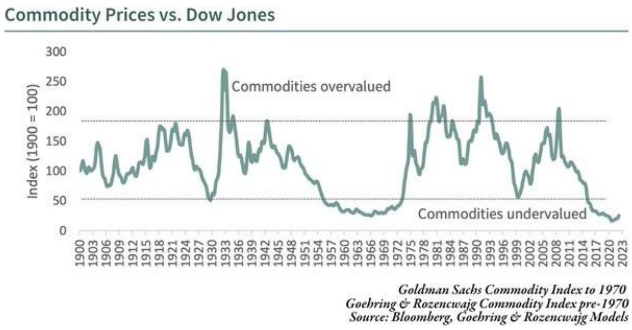


US Dollar Index annual performance – Bloomberg, 27DEC2024 – Speculative USD futures positioning

Taking a quick look at currency and commodity markets, the USD seemingly lived up to its status as the world's reserve currency, as the USD Index (DXY) rose by 7% in 2024, while the USD gained 6% against the EUR. The chart above on the right shows that this was mainly achieved with the help of speculative flows via the futures markets.

However, the true world reserve currency is gold, the price of which rose by a full 27% against the fiat reserve currency. (If crypto is considered a "currency", then gold certainly is). The price of silver also rose by more than 21%, while platinum and palladium suffered price losses (-8% / -17%, and all against USD). The EUR as base currency of the IASF showed a mixed performance: it was weak against USD, but stronger against CHF or CAD, as well as JPY or NOK.

On the commodities side, both the Brent oil price (-3%) and uranium (-20%) recorded (in one case significant) losses, while copper gained around 3%. The Bloomberg Commodity Index 2024, however, was little changed overall, and compared to equities, commodities remain deeply undervalued.

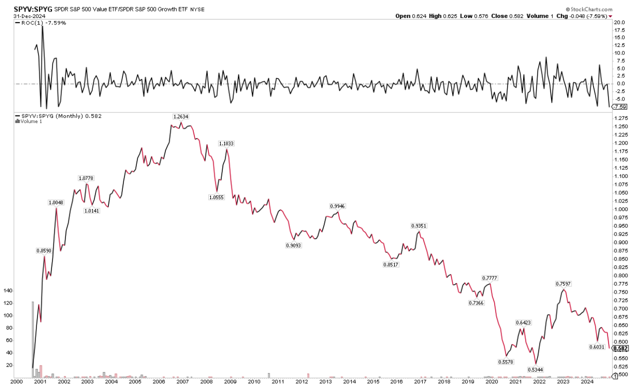


BCI vs Dow Jones Index; @jenstilmanydots, X, 8JAN2025

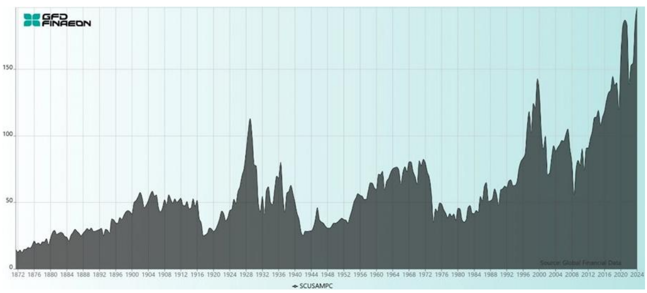
IASF-USD-I- NAV 2024, IFM

Unfortunately, our IASF failed to impress in the described environment and closed 2024 with its worst annual result and, for the first time in a calendar year, with losses in all share classes (EUR-I: -2.84%; CHF-I: -4.97%; USD-I: -1.04%). A respectable start to the year and new all-time NAV highs in May were followed by a drawdown of around 15%, which came to an end (at least for the time being) shortly before Christmas (Dec19).

In view of the circumstances described above, our positioning last year was composed predominantly of value and hard asset plays on the equity side (average gross allocation of approx. 76%), as we are convinced that they will prove particularly effective in preserving and building real value over the course of the unfolding long-term global debt cycle. Last year, however, they failed to do so, and in December Value vs Growth even experienced its worst month since October 2001.



S&P 500 Value vs Growth; @MikeZaccardi, X, 31DEC2024

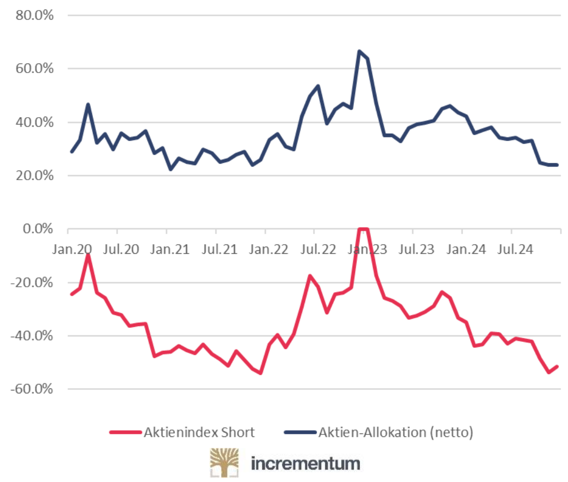


US Market Capitalization vs GNP; @MebFaber, X, 3DEC2024

The impact of our long equity exposure was partly offset by our short futures positions, which we decided to hold amid the exorbitant overall stock market valuations and in order to reduce broad equity market risk and benefit from a long-term rotation from growth/tech into value / hard asset stocks.

These short positions averaged around 44% of AuM for the year (rising from 33% in January to 52% in December) and were made up of 56% Nasdaq 100, 32% S&P 500 and 12% DAX (ratios as of year-end, and largely stable over the course of the year).

These positions delivered a negative contribution of around 9% to IASF's performance, and were thus solely responsible for the fund's loss in 2024.

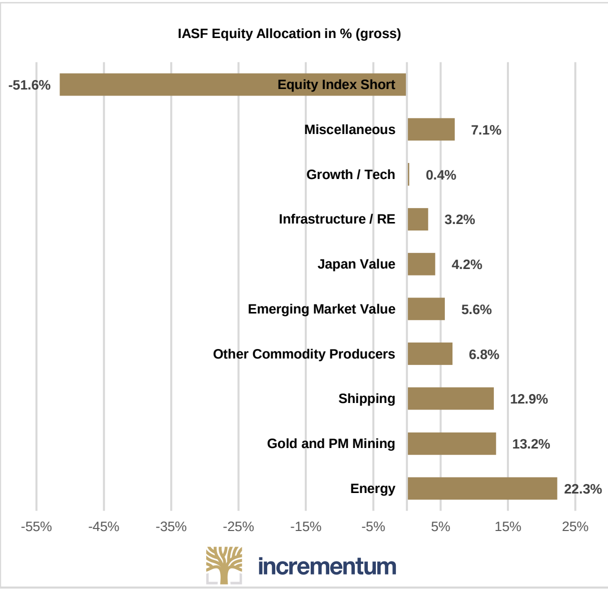


Consequently, IASF's long-only performance was around 6% last year, which may feel disappointing for many compared to the performance of market-leading US indices, the MSCI ACWI Index dominated by them, or the DAX Index, but should be understandable in light of the fact that their rise was mainly driven by very few and overpriced mega caps. Personally, and given these circumstances, we are not dissatisfied with the performance of the long side of IASF's portfolio last year.

However, the mixed performance in 2024 shows that headwinds increased significantly in the second half of the year. To illustrate this, our main equity themes reported the following average (and not currency-adjusted) total return figures for all holdings,

- **ENERGY** (22% of AuM): year-end 2024 -10% / mid-year: +9%
- **GOLD AND PM MINING** (13% of AuM): year-end 2024 +17% / mid-year: +9%
- **SHIPPING** (13% of AuM): year-end 2024 -4% / mid-year: +35%
- **MISCELLANEOUS** (7% of AuM): year-end 2024 -12% / mid-year: -4%
- **OTHER COMMODITY PRODUCERS** (7% of AuM): Year-end 2024 -17% / mid-year: -5%,

while the smaller themes delivered average total return figures in the low single-digit performance range.



The comparisons with middle-of-the-year performances illustrate which themes were responsible for the downturn in the second half of the year. With **ENERGY**, **SHIPPING** and **OTHER COMMODITY PRODUCERS**, these were growth sensitive sectors with a strong cyclical character, which leads to the conclusion that market participants harbour growing doubts about the global growth outlook. We were obviously surprised by this and had to accept the resulting correction in IASF's NAV. Fundamentally and in the longer term, however, we remain convinced of the positive outlook for these sectors.

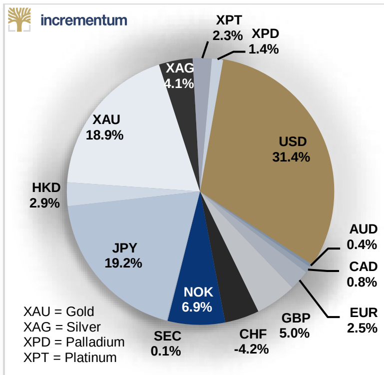
Meanwhile, I hope it goes without saying that we do respond to such developments and aim to utilize the cycle accordingly. For example, we took significant profits in **SHIPPING** during the second quarter (April ended with a 15% allocation, May with only 11%), but we are frank to admit that we started buying back in August/September and continued to do so into a falling market, which accelerated again in the fourth quarter. We were clearly surprised by the extent of the drop in shipping sector stock prices.

Frontline Ltd, investing.com, 15JAN2025

Frontline, for example, lost a full 55% between its high in May and its low in December, which we did not see coming based on the deteriorating underlying fundamental conditions (above all the lack of a rate recovery in the fourth quarter and pressure on secondary vessel prices, while the company continued to remain profitable).

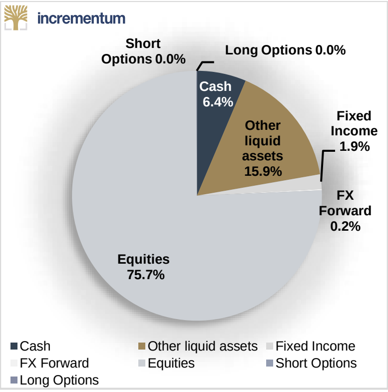
This should only serve as an example and in our opinion reflects the lack of rationality in the market as well as the lack of long-term investors (strong hands) in this sector. However, it also highlights the opportunities such volatility offers, and we have taken advantage of it to increase our allocation again and further at lower prices (number of FRO shares in the portfolio grew by 175%, while overall portfolio allocation of FRO rose from 1% at the end of May to 1.6% by year-end), as we remain convinced of the long-term positive outlook for the largest listed VLCC shipowner, as well as the inflation sensitivity of the **SHIPPING theme** in general.

Of course, currency allocation is also typically an important performance driver, although it was generally fairly neutral in 2024. Our only partially hedged USD allocation in particular had a positive performance effect, while our JPY, NOK and GBP allocation had a negative impact. And on the precious metals side, both the gold and silver price increases were an important pillar of last year's performance, while the small platinum and palladium positions, the latter of which was only added during the second half of the year, came at a cost.



We would also like to note here that our volatility harvest generated premium income of around EUR 2.3 million last year through the sale of covered options, which corresponds to around 1.4% of the average AuM held.

Dividend income totalled just under EUR 6 million in 2024, which contributed around 3.7% to overall results. This corresponds to an average dividend yield of 4.8% on our long equity portfolio. This extraordinarily attractive level was achieved because the **SHIPPING** segment closed the past year with a dividend yield of 11%, as well as due to a special dividend payout from OCI NV, which corresponded to around half of the company's market capitalization.



Our tiny bond portfolio also yielded EUR 332k in interest, though at year-end it merely amounted to just under 2% of AuM. Its average yield is now just over 10% with a duration of 2.8 years.

Finally, we would like to point out that due to the inherently cyclical investor behaviour and the lacklustre performance of the past two years, IASF had to accept net outflows, which clustered mainly in the second half of the year, and totalled EUR 3.9 million for the full year.

We would also like to mention here that IASF received a Lipper Fund Award as the best fund in its "*Mixed Assets EUR Flex Global*" category over a 3-year horizon and for the second year in a row. The fund also continues to be awarded with Morningstar's highest, i.e. 5-star, rating. In addition, and based on IASF's risk-adjusted track record, WirtschaftsWoche ranked Incrementum AG number 11 on its list of best asset managers in the "Dynamic" category.

Overall, we are very satisfied with the development of IASF, despite the rather disappointing 2024 performance. Unfortunately, the investment business is not a one-way street, and any active and, like us, benchmark-independent and absolute return-oriented investor will probably be able to confirm the experience that, in addition to good to excellent phases, there are always disappointing ones as well. This is in the nature of our business, because as investors, we face the challenge of predicting the future, and as we all know, '*it is difficult to make predictions, especially about the future.*' – That is why our perhaps most important investment lesson is:

There is no magic formula for investment success:
Pay attention to both macro- and micro-economic aspects, be flexible, careful, patient and open,
and be aware that investing is more of an art than a science.

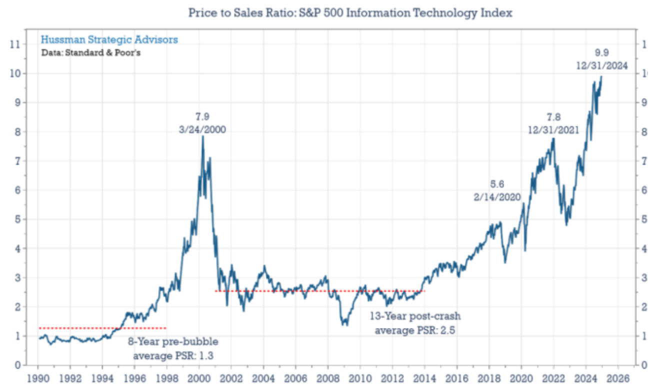
Ultimately, this is a condensation of more than three decades of professional investment experience. With it we have always managed to achieve satisfactory investment results, and we are confident that we will continue to do so in the medium to long term. At this point, it remains for us to thank all our investors for their patience and trust, and we look forward to another exciting, interesting and, no doubt, challenging new investment year!

Investor wisdom

On January 4, 2025, Kevin Muir, also known as *The MacroTourist*, published his "Investor Wisdom 2024" list on Substack. As I read his blog regularly and always take note of the experiences and lessons of other investment managers with great interest and the aim to learn from them, I have selected half a dozen below that seemed particularly relevant to me in 2024:

" In bull markets, the future gets a premium. In bear markets, reality gets a discount." (Jim Chanos, famous short seller, from The MacroTourist, 2024 Trading Wisdom)

This was particularly fitting for 2024, as powerful and mature bull markets are usually dominated by a narrative that justifies the then prevailing overvaluation. This time it is a small number of stocks that are benefiting from the boom in AI (artificial intelligence) and its expected development potential. The premium of these stocks is best illustrated by the price-to-sales ratio, which at the end of last year reached a level of around 10 times for the S&P 500 Info Technology Index.



William Hester, CFA, Hussman Strategic Advisors, Jan2025

Whenever I see something like this, I inevitably think *of Scott McNealy*, CEO and co-founder of Sun Microsystems during the TMT (Tech-Media-Telecom) bubble of the late 90s, who became famous for the following quote in an interview with Business Week's Editor-in-Chief Stephen B. Shepard on March 14, 2002:

"... But two years ago we were selling at 10 times revenues when we were at $64. At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?"

In bull markets, premiums are placed on the future and rarely (perhaps never before) has this been more the case than today. – When investors draw a comparison with the TMT bubble, the many loss-making start-ups such as Pets.com are often cited as what makes the difference to today's mega caps. But the latter also existed back then (as they likely do now, but mostly in the private asset space). Microsoft (> 400% performance from the beginning of 1998 to the high in March 2000), Cisco (> 800%), Nortel Networks, Sun Microsystems, America Online / Time Warner, Nokia (>1000%), Motorola, etc. were all large companies at the time that were well established and profitable. The operating business of these companies continued to show medium-term growth from March 2000 onwards, but the share prices fell, and quite drastically (Microsoft -65%, Cisco -90%, Nokia -80%).

This is how I have often experienced the market cycle: from elation and euphoria in the final stage of a bull market to deep gloom, pessimism and despair, including the associated excessively discounted risks in the final stage of a bear market. – The memory of the latter probably deserves a refresher.

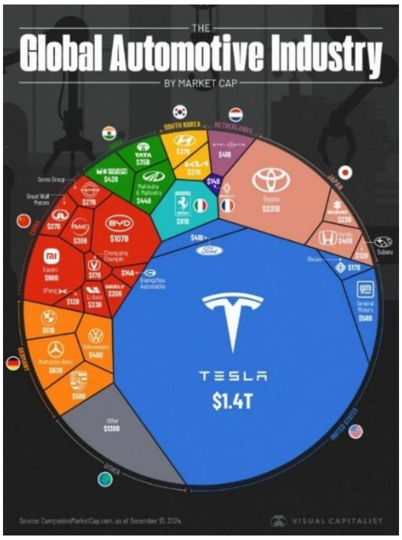
(Hedgeye Weekend Reading, 5JAN2025)

After all, the last major bear market was more than 15 years ago, and it seems that the bears have by now become an extinct species. However, if you take a closer look at the chart on the previous page, you will see that the price-to-sales ratio reached a low in late 2002 and a new long-term low in 2009, i.e., at those points in the cycle reality and outlook were quite heavily discounted at that time.

" Definition for the term bubble that you can use in real time: you need to use implausible growth expectations to justify the current price (using a conventional discounting cash flow model), and the marginal buyer does not care about valuation models. Nvidia fits that definition. In the year 2000, of the ten most valuable companies on the planet, zero out of ten had beaten the S&P 500 over the next 15 years. One out of ten-Microsoft-had won over the next twenty years." (Robert Arnott, Founder of Research Affiliates, from The MacroTourist, 2024 Trading Wisdom)

This ties in seamlessly with the previous quote, as it reminds us how important it is in speculative bubbles not to be too tempted to invest with a rear-view mirror view. Today's generation of investors cannot imagine that history will repeat itself. I don't believe that either, but there is no question in my mind that it rhymes.

Take the example of Tesla (TSLA):



@VisualCap, X, 1JAN2025

"People love to bandy about crazy visuals like this one… – But valuing TSLA as a car company completely misses the point.

TSLA is a car company the way MSTR is a software company. I.e., it's not. TSLA is a kaleidoscopic collection of technofuturistic hopes and dreams. It's a memecoin that trades partly off an oligarch's ability to write future legislation. Maybe Exxon Mobil trades off discounted cashflows or book value or whatever. Tesla doesn't. You can believe the story being sold, or you can not believe it. You can get on board, or stay on the sidelines. But don't use DCF or cross-industry market cap comps to benchmark Tesla's valuation. That's not the right framework." (Friday Speedrun, Brent Donnelly, Spectra Markets, 3JAN2025)

This is exactly what has driven Tesla's valuation to USD 1.4 trillion. Not its market share, sales or cash flows, but the conviction of investors that Elon Musk is a genius and / or alternatively (which is probably also true) the best stock promoter of all time, who on top of that is now also politically beneficially connected. In other words, the marginal buyer of TSLA doesn't care about valuation models. – And yet, in the longer-term price always finds its way back to its true value. The way up and thus away from "intrinsic value" is a pleasure cruise, the way back usually far more painful. Or in the words of another stock market professional:

"I watched a lot of really smart people go out of business shorting tech during the DotCom bubble. Then, I watched a lot of really smart people go out of business staying long tech during the DotCom crash." (Unnamed stock market professional and his trading experiences in market bubbles, from The MacroTourist, 2024 Trading Wisdom)

One reason why I believe I have become a reasonably successful investor is that I have never forgotten that financial markets move in cycles (or follow market seasons), and these include more than just the upswing (or spring and summer), which is why I also do not mind swimming against the tide in periods of extreme deviations from the long-term mean.

“I've been investing the way we are investing now for forty years. And it worked. The key is: don't lose your nerve. Nobody ever says, "gosh, last week was so awful, I think I am going to lose my nerve." The danger is that people do the exact opposite of what they know is right, but tell themselves that this is a variation on doing it right. In this, I can taste a turd in the champagne when there is very little of it. I sense when there is any thinking that is different to how we have always done it.” (Jonathan Ruffer, founder of Ruffer Investment Mgt, from The MacroTourist, 2024 Trading Wisdom)

At its core, this also reflects one of my deepest convictions: you have to stay true to yourself and your own investment approach, even in phases when things are not going so well. Warren Buffett did not doubt his fundamental approach in the years when he underperformed the S&P 500 (e.g. in 1999, when BRK's book value fell by 20% while the S&P 500 rose by 21%). This doesn't mean that you do not constantly review and even sometimes question your approach with the aim to fine-tune it. But every investor is made for a certain investment approach, which is always based on individual personality structure, character and experience, and our career serves us to discover and improve it for ourselves. Because...

“The investment process is only half the battle. The other weighty component is struggling with yourself, and immunising yourself from the psychological effects of the swings of markets, career risk, the pressure of benchmarks, competition, and the loneliness of the long distance runner.” (Barton Biggs, Legendary Wall Street Strategist, from The MacroTourist, 2024 Trading Wisdom)

Perhaps this is one of the most underrated qualities of a good investor, and in 2024 it certainly felt like it was more than half the battle to stay true to one’s fundamental investment approach. And to conclude:

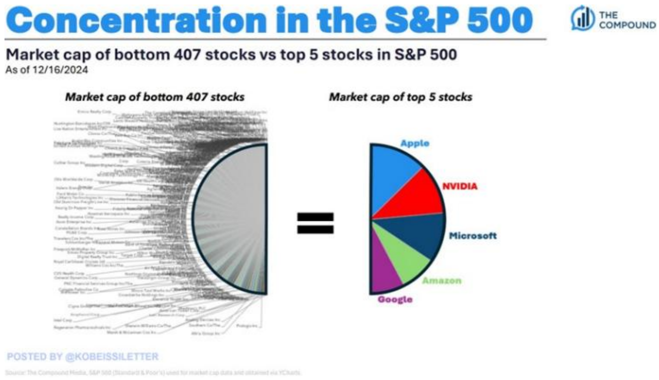
“A mistake repeated more than once is a decision.” (Jim O'Shaughnessy, Portfolio Manager, from The MacroTourist, 2024 Trading Wisdom)

What does 2025 have in store for us?

Investment wisdom is always an interesting subject, but I guess my readership is probably keener on the question of how we assess the development of financial markets and therefore also IASF for 2025. If I had to summarize the market outlook, it would be with the preliminary remark that I can only do so without guarantee, as I obviously do not know how financial markets will develop in 2025.

What I do know is that financial markets are subject to cycles, and that the summer season was extremely pleasant for both equities and the US dollar, and it lasted a long time. It may thus not surprise you to learn that we expect a global equity markets correction in 2025, as well as a weaker US dollar, as both are granted exorbitant valuations and are significantly overweight by international investors. Evidence provides the example of South Korean investors who, according to the Financial Times, increased their allocation to US equities by 65% last year. Unsurprisingly, their favorite stocks were Tesla, followed by Nvidia, Apple and Microsoft.

The world has probably never seen such concentrated portfolios as it does today. Investors believe that they are diversified via passive index vehicles. However, this must be called into question when the market capitalization of the 5 largest stocks in the S&P 500 is just as large as the 407 smallest. AAPL, NVDA, MSFT, GOOGL and AMZN are worth a total of USD 15.3 trillion and thus more than the combined China and Hong Kong stock markets.



@KobeissiLetter, X, 14JAN2025

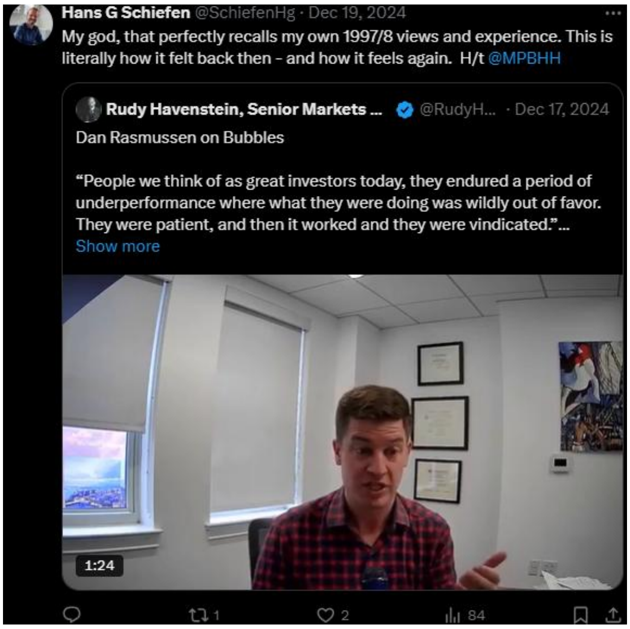
In many ways, 2025 feels similar to 2000, or if historical reports are to be believed, 1929 or 1972. In 1929, one could also have rightly spoken of US exceptionalism, as the country at that time was already a leader in areas such as radio, car and assembly line production and was enjoying extremely high growth rates (8.5% in 1929). Nevertheless, equity investors suffered losses of 90% of their wealth over the following three years.

The situation was similar in 1972. Investors raved about the extraordinary growth prospects of Coca Cola, Procter & Gamble, Johnson & Johnson or IBM, and the price they were prepared to pay for these (nifty-fifty) companies did simply not matter. Two years later, these shares had lost up to three quarters of their value.

I have already described the situation in the run-up to 2000 above.

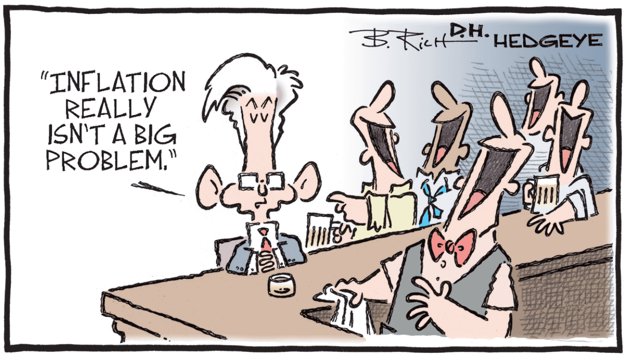
What these bull markets all had in common was that towards the end the last hurrah was driven by an ever decreasing number of mega caps. This allowed the broad market indices to continue to rise, even though the majority of individual stocks were already on their way into a bear market. This characterized the Nifty Fifty phase and was repeated in a similar way in the run-up to the year 2000, when so-called old economy shares were sold off massively in 1999, which also explains the extreme underperformance of Berkshire Hathaway in that year (as mentioned above, BRK book value fell 20% in 1999, while the S&P 500 gained 21%). As is well known, price is a critical factor for Warren Buffett in the investment business, while most investors were completely indifferent to valuation models in this market phase.

1998 and especially 1999 were also difficult years for me as an investor. That is why I think it is useful to listen to the short summary of the experience in prior bubbles by Verdad Capital's Dan Rasmussen, who found that many famous investors called the TMT bubble correctly but far too early, which reflects very well and accurately my own experience during that period (I had exited the TMT stocks by year-end 1998 entirely.) – Based on this experience, I am convinced that we are in a phase of trend reversal, which is why IASF remains partially "*hedged*", both on the equity and currency side. (On the latter, we increased our USD hedges by a further 10% of AuM at 1.02 in mid-January).



@SchiefenHg, X, 19DEC2024

Our macro-outlook continues to predict a stagflationary environment, i.e. weakening growth coupled with persistently (too) high inflation (relative to the targeted annual debasement rate of 2%).



Hedgeye, Cartoon of the Day, 19DEC2024

In this regard, it is hardly surprising that the OECD's estimates are as always fairly optimistic, but even their economists forecast a slight slowdown in growth over the coming years. And the inflation rate will of course fairly promptly return to the target number; after all, as we have all been told, the recent surge in inflation was merely transitory…

Table 1.1. Global GDP growth is projected to remain broadly stable over the next two years

	Average 2013-2019	2023	2024	2025	2026	2024 Q4	2025 Q4	2026 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.2	3.2	3.3	3.3	3.3	3.3	3.2
G20[2]	3.5	3.6	3.3	3.3	3.2	3.3	3.2	3.1
OECD[2]	2.3	1.8	1.7	1.9	1.9	1.8	2.0	1.8
United States	2.5	2.9	2.8	2.4	2.1	2.5	2.2	2.0
Euro area	1.9	0.5	0.8	1.3	1.5	1.1	1.4	1.5
Japan	0.8	1.7	-0.3	1.5	0.6	0.6	1.3	0.3
Non-OECD[2]	4.4	4.4	4.4	4.4	4.3	4.5	4.3	4.3
China	6.8	5.2	4.9	4.7	4.4	4.7	4.6	4.3
India[3]	6.8	8.2	6.8	6.9	6.8			
Brazil	-0.4	2.9	3.2	2.3	1.9			
OECD unemployment rate[4]	6.5	4.8	4.9	4.9	4.8	4.9	4.9	4.8
Inflation[1]								
G20[2,5]	3.0	6.1	5.4	3.5	2.9	4.4	3.1	2.8
OECD[6]	1.7	7.1	5.4	3.8	3.0	4.7	3.3	2.7
United States[7]	1.3	3.8	2.5	2.1	2.0	2.5	2.1	2.0
Euro area[8]	0.9	5.4	2.4	2.1	2.0	2.3	2.0	2.0
Japan[9]	0.9	3.3	2.6	1.9	2.1	2.3	1.7	2.1
OECD fiscal balance[10]	-3.1	-4.8	-4.8	-4.6	-4.4			
World real trade growth[1]	3.4	1.0	3.5	3.6	3.5	4.1	3.4	3.5

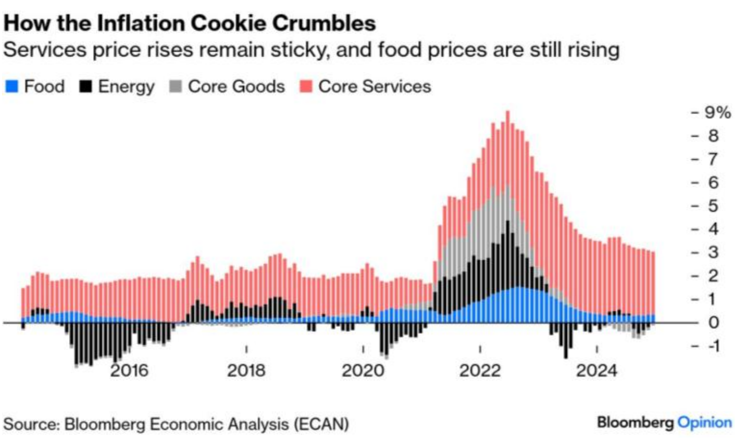
1. Per cent; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Headline inflation.
6. Moving nominal private consumption weights, using purchasing power parities.
7. Personal consumption expenditures deflator.
8. Harmonised consumer price index.
9. National consumer price index.
10. Per cent of GDP.

Source: OECD Economic Outlook 116 database.

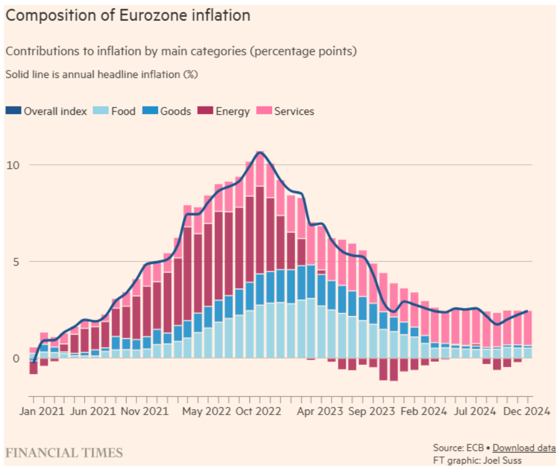
OECD Economic Outlook, 4DEC2024

Let's have a look at the numbers: If the OECD estimates are to be believed, the global economy will grow like clockwork. Global growth rates of between 3.2% and 3.3% are expected by the end of 2026, which is slightly below the 2013-19 average. At the same time, the anticipated unemployment rate remains low at 4.8-4.9%, which incidentally is well below the 2013-19 average of 6.5%. Hence, there is no hint of potential economic cyclicality here either… – Persistently high negative fiscal balances (due to the ongoing increase in government debt) are expected to decline in 2025 and 2026, but remain well above the 2013-19 average, and continue to have a growth stimulating effect.

It almost seems as if economic policy has finally found the Holy Grail of perfect control over the economic cycle. However, count us as sceptical on the issue. Especially inflation has so far proved to be more stubborn than expected. As the following charts show, the rates of change in both Europe and the USA remain in the 3% range. It is striking that almost all of the recent increase is being driven by the services sector. This sector primarily serves less price-sensitive (or more affluent) consumers, which more easily allows corresponding price adjustments. We believe that this part of the equation continues to harbour high inflationary potential, while food, goods and energy have experienced a cyclical downturn, which is typically followed by a cyclical upturn.

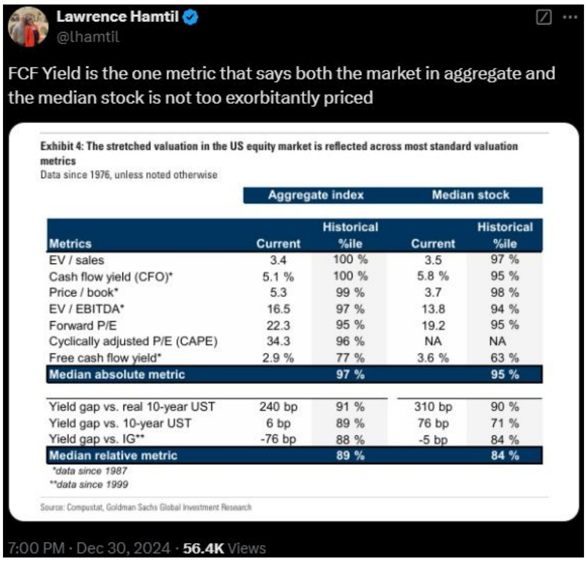


US inflation, Bloomberg, John Authors, Points of Return, 16JAN2025



Eurozone inflation; Financial Times, 8JAN2025

@Barchart, X, 3JAN2025



Lawrence Hamtil @lhamtil

FCF Yield is the one metric that says both the market in aggregate and the median stock is not too exorbitantly priced

Exhibit 4: The stretched valuation in the US equity market is reflected across most standard valuation metrics
Data since 1976, unless noted otherwise

Metrics	Aggregate index Current	Aggregate index Historical %ile	Median stock Current	Median stock Historical %ile
EV / sales	3.4	100 %	3.5	97 %
Cash flow yield (CFO)*	5.1 %	100 %	5.8 %	95 %
Price / book*	5.3	99 %	3.7	98 %
EV / EBITDA*	16.5	97 %	13.8	94 %
Forward P/E	22.3	95 %	19.2	95 %
Cyclically adjusted P/E (CAPE)	34.3	96 %	NA	NA
Free cash flow yield*	2.9 %	77 %	3.6 %	63 %
Median absolute metric		**97 %**		**95 %**
Yield gap vs. real 10-year UST	240 bp	91 %	310 bp	90 %
Yield gap vs. 10-year UST	6 bp	89 %	76 bp	71 %
Yield gap vs. IG**	-76 bp	88 %	-5 bp	84 %
Median relative metric		**89 %**		**84 %**

*data since 1987
**data since 1999

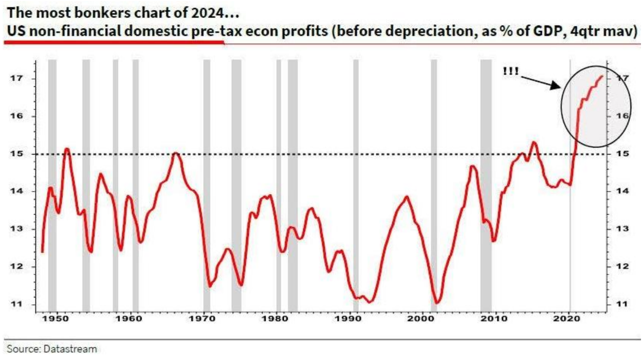
Source: Compustat, Goldman Sachs Global Investment Research

7:00 PM · Dec 30, 2024 · 56.4K Views

@lhamtil, X, 30DEC2024

With regard to our continuing US equity index short positions, there is much that points to a correction / bear market this year. As already mentioned, valuations are at record high levels, as can be seen from the S&P 500 price-to-book ratio above on the left as well as the table on the right, where with the exception of the free cash flow (FCF) yield all absolute valuations are within the top 5% measured since 1976.

Unsurprisingly, the author (@lhamtil) uses the FCF yield as indicator that the stock market is not exorbitantly expensive, as it is only at the upper end of the middle valuation third. But without any doubt, an FCF yield of 2.9% with a Fed Funds rate at 4.5% is not very attractive, and it must also be noted that US corporate profit margins are at historically record high levels, which we do not regard as sustainable.



Haymaker, 3JAN2025

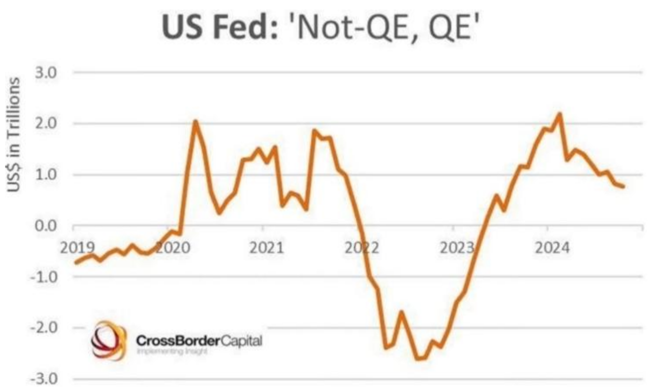
In our view, rising financing costs, continuing pressure on labour costs and the (currently still) firm US dollar mean that more serious pressure on margins should be expected this year, which will make it increasingly difficult to meet the very optimistic earnings forecasts.

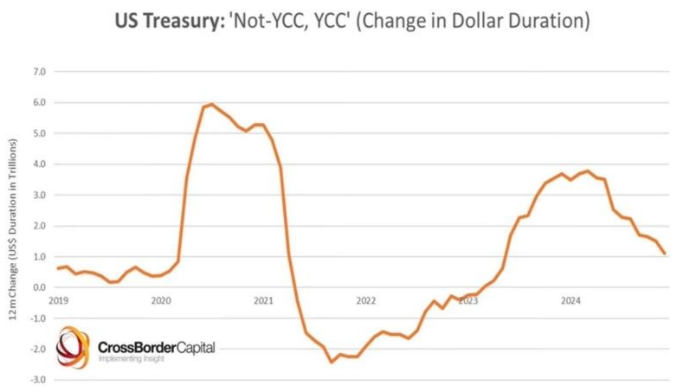
EXPECTATION GAP BY COUNTRY	Investors' long-term return expectations	Expectations Gap	Financial professionals' long-term expectations (2022)*
Global	**12.8%**	**42%**	**9.0%**
US	15.6%	123%	7.0%
Australia	12.5%	81%	6.9%
Hong Kong	12.4%	63%	7.6%
Canada	10.6%	63%	6.5%
Japan	13.6%	56%	8.7%
Italy	9.6%	52%	6.3%
Germany	10.1%	44%	7.0%

Long-term stock market return expectations: **Investors** and **Financial Professionals**; 2023 Natixis Global Survey Of Individual Investors

This mixture of record-high profitability and record-high company valuations naturally also fits in with the picture of unusually or rather exorbitantly high investor expectations, as far as long-term equity market return prospects are concerned. Investors expect 15.6% annual long-term earnings growth for the US, which also explains the unprecedented overweight of US equities, both domestically and internationally. This kind of optimism is a global phenomenon, but nowhere as pronounced as in the USA. By way of comparison, average earnings growth for US equities in periods without recession has been around 6%.

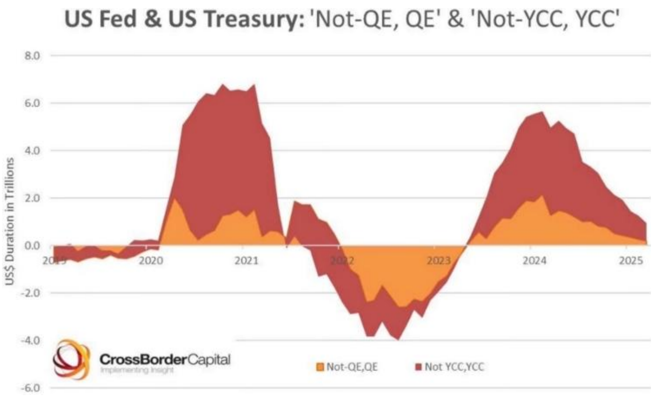
What else speaks in favour of a stock market correction? – As the founder and CEO of Crossborder Capital, Michael Howell, explains in an interview with WTFinance on YouTube on 13JAN2025, US capital markets experienced an enormous tailwind from hidden liquidity injections in the second half of 2023 and into 2024. In this regard, **'Not-QE, QE'** (see chart below left) describes how instruments such as Reversed Repo, Treasury General Account, Bank Term Funding Programme and also the Fed's operating losses have been used to channel liquidity into the system. **'Not-YCC, YCC'** (chart below right) describes the liquidity effect of the change in the duration of Treasury bond issuance. Here the issuance of long-term bonds absorbs the balance sheet capacity of large investors, while the issuance of short-term T-bills (up to 1 year maturity) is absorbed by the banking system as duration match for increased deposit volume due to high government deficits and spending, which in turn has no liquidity effect. These hidden liquidity injections are now decreasing, creating liquidity headwinds for risk assets.

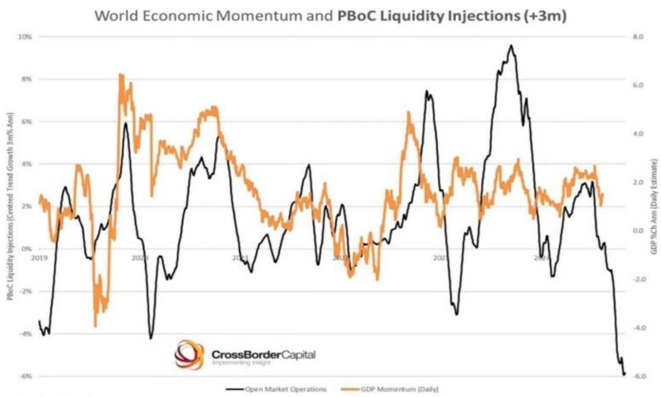




Liquidity Crunch Threatens... 'Everything Bubble'; Michael Howell, WTFinance, 13JAN2025

According to CrossBorder Capital, the overall effect is visualised in the chart below left:

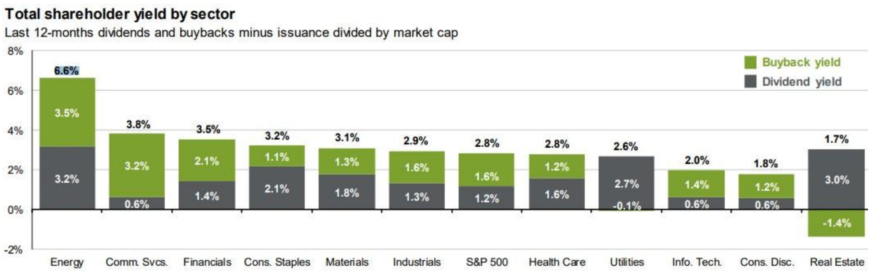




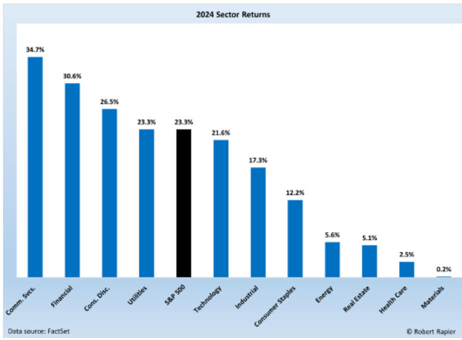
Liquidity Crunch Threatens... 'Everything Bubble'; Michael Howell, WTFinance , 13JAN2025

At the same time, China is going through a debt-driven deflationary phase, which is also signalled by the sharp fall in long-term interest rates. Normally, a country would counter this pressure by devaluing its currency, but China is trying to avoid this for geopolitical reasons. This in turn means that the country has to go through an extended restructuring phase, which inhibits growth and intensifies the deflation shock. In order to avoid having to devalue the CNY against the USD, China is selling USD for CNY, which drains liquidity from the CNY system, which is typically accompanied by a slowdown (stagnation) in global growth, as the chart above right shows.

As already mentioned, all this leads us to expect a correction in equity markets. The question remains as to whether we are still invested in the right investment themes in this respect. For us, there are many arguments in favour of this, starting with the very attractive valuations, the intrinsic value character of our investments, but also the fact that our cyclically sensitive themes – as described in the activity report – have already priced in an economic slowdown. – Let's take the energy sector as an example, which delivered the worst sector performance in 2024. The fact that prices were pushed well below the value of the companies is shown, among other things, by the fact that investors were rewarded with generous total shareholder returns (**dividend** + **buybacks**) of 6.6%, which was 74% higher than the second most attractive sector.



@MikeZaccardi, X, 2JAN2025

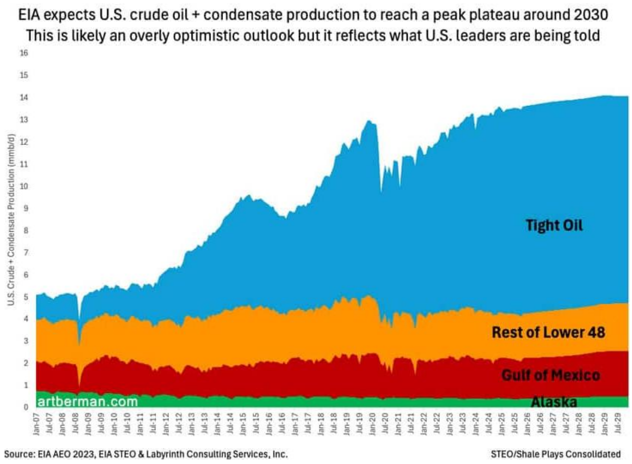


S&P 500 Sector Returns 2024, Forbes, 4JAN2025

However, with an S&P 500 Energy sector return of 5.6%, this means that there has been a significant valuation contraction, which in our view makes the sector even more attractive at the beginning of 2025 than it was last year.

The market is obviously very nervous that Donald Trump will be able to realise his "*Drill, Baby, Drill*" motto, which envisages giving the market enormous freedom to develop new OIL and gas fields, which could lead to higher US production (and exports) and thus lower energy prices. However, sober reflection suggests that this process will take time and that the industry will certainly not be prepared to forego reasonable profit margins.

Energy expert Art Berman had the following to say on the subject: *"Trump's belief that U.S. oil and gas are unlimited is flat-out wrong. The EIA's projection (Figure 6) shows slow growth through 2028, then a plateau by 2030—a view that's likely too optimistic. It ignores rising costs of drilling lower-quality wells and the fact that shareholders and capital markets aren't backing the massive drilling needed to make this happen. Case in point: the recent Arctic Refuge federal lease sale drew zero bids."*



The Energy March of Folly, Art Berman, 10JAN2025

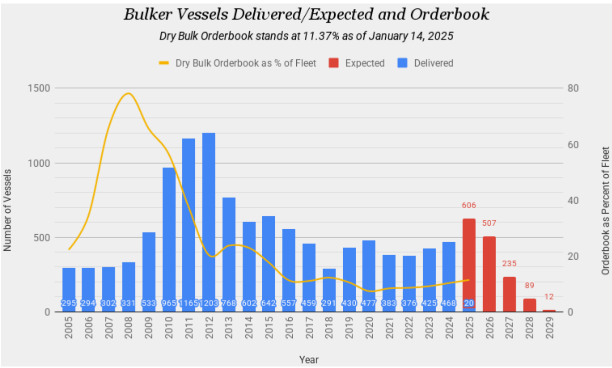
We have repeatedly commented on this topic in previous issues of Seasonal Reflections and pointed out special factors in supply as well as the importance of the positioning of financial market participants.

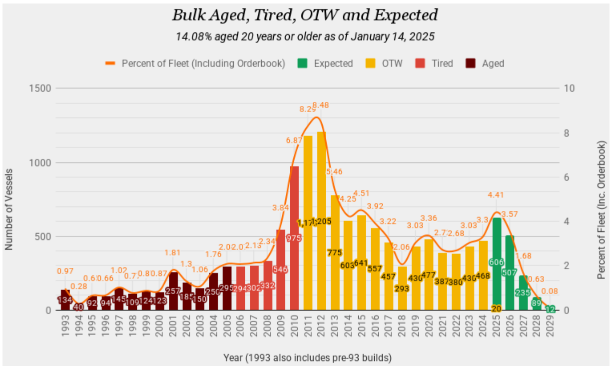
Brent Oil Futures, investing.com, 17JAN2025

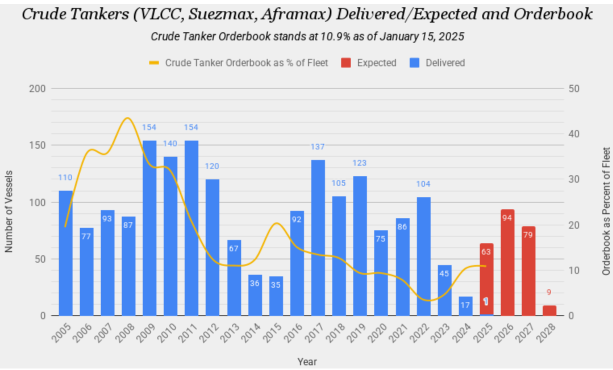
In our view, the oil and gas industry remains an extracting industry that on hand benefits from cost advantages due to improved technology, but on the other also has to live with constantly declining production yields. We therefore expect the Brent oil price, for example, to remain in its medium-term range of USD 70-90, which will ensure ongoing high profitability for the industry.

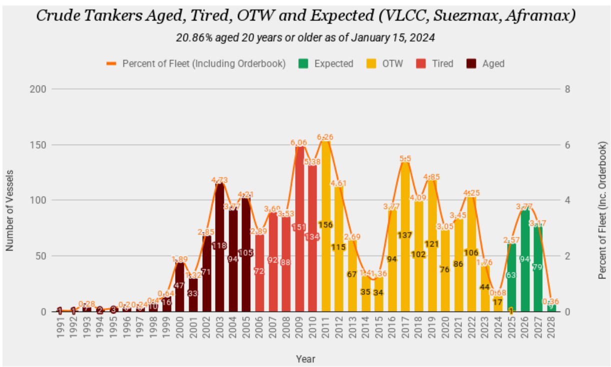
The uranium sector also had a very difficult year in 2024, although nuclear energy is experiencing a global renaissance, and the often-described supply gap is increasingly becoming a reality. Here, too, investors need patience. As has often been the case, the initial upswing is still very speculative in nature and carried by a few and rather nervous hands, which is why this always requires "digestion phases", which we experienced last year. However, the clearer the fundamental tailwind becomes, the more long-term investors will turn to the sector, and we are optimistic that 2025 will see a renewed upswing. More information on the case for uranium can be found on the Uranium Resources Fund website, which is a treasure trove of interesting facts and current developments in the sector.

And to return briefly to the topic of **SHIPPING** and the question of why we are sticking with this highly cyclical theme, here is a list of the most important arguments: Firstly, we continue to see the sector as sensitive to inflation in the medium term and therefore as a beneficiary of a rotation from growth / momentum investments to value / hard asset investments. Secondly, this is a sector that plays a key role in international trade and is therefore irreplaceable. Thirdly, there is a growing supply gap here, particularly in our favoured sub-sector areas 'tankers' and 'dry bulk', as a rapidly ageing fleet meets an extremely thin order book.









January 2025 Supply-Side Updates, Value Investor's Edge, 18JAN2025

For more details on the general investment case for the SHIPPING sector, I can recommend to my readership the interview "Shipping: A Contrarian's Dream Sector" with J Mintzmyer of Value Investor's Edge, published by Kevin Muir on January 19 on his The Market Huddle YouTube channel.

A fourth argument derives from the fact that the sector is only followed by a few specialists and is highly volatile. This always offers exceptionally attractive investment opportunities at cyclical lows, as we are experiencing again right now, in stocks that are fundamentally highly attractively valued. This may not offer the same short-term upside potential as $TRUMP, but in our opinion it fulfils the criteria for "investing" rather than "speculating"

And lastly, it does probably not need to be stated again that we continue to believe in precious metals and their producers. This is primarily due to the fact that we expect a better real return from this sector than from government bonds. As the following chart shows, the gold price has clearly outperformed broad bond indices over the past five years.

@dLacalle_IA, X, 2JAN2025

To quote Daniel Lacalle in the X article mentioned above: *"No government wants to offer you a real economic return. Inflation is a policy, not an accident."* – We have nothing to add to that.

CONCLUDING REMARKS

In view of the length of this report and a dwindling time budget, allow me to conclude my remarks at this point. In doing so, I would like to quote from Howard Marks' latest memo, in which he states: *"It shouldn't come as a surprise that the return on an investment is significantly a function of the price paid for it. For that reason, investors clearly shouldn't be indifferent to today's market valuation."* (On Bubble Watch, Howard Marks, 2JAN2025)

The late phase of a bull market is always characterised by exorbitantly high valuations, and these are regularly explained by the prevailing circumstances, as the market generally tends to extrapolate trends. For us, this simply means further patience is required. As our old friend (and fund manager) James Hay reminded us in his Pangolin Asia Fund's year-end letter under the heading "Patience Is a Virtue": *" In an investment world chasing quick returns, the genuinely long-term investor would appear to be a dying breed. Whether it be Bitcoin or the Magnificent Seven, there's more temptation than ever to lure the patient investor into rear-view mirror investing. Pangolins don't take much notice of short-term swings or hot money flows. In the long run, being patient owners of well-run businesses that can steadily grow their earnings generally leads to reasonable returns. The trick is to not get distracted by the incessant financial news of today, to trust your conviction even if your holdings may be underperforming your neighbour's Bitcoin."* – With that I have to count myself as a member of the Pangolin investment manager species...

And with that, let's wrap up the first edition of my Seasonal Reflections in 2025, a year, for which we once again expect more light than shade. As always, I am looking forward to receiving your feedback by email and would like to thank all readers for their interest and our investors for their patience and loyalty. And perhaps I even meet you in person in Mannheim or on a visit to the Principality or its neighbourhood...

Best wishes from Schaan, Liechtenstein!

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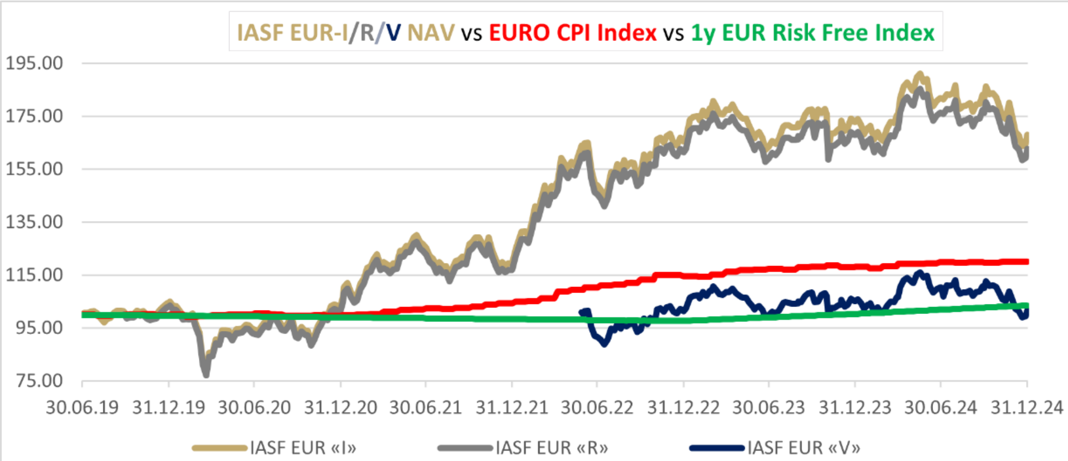
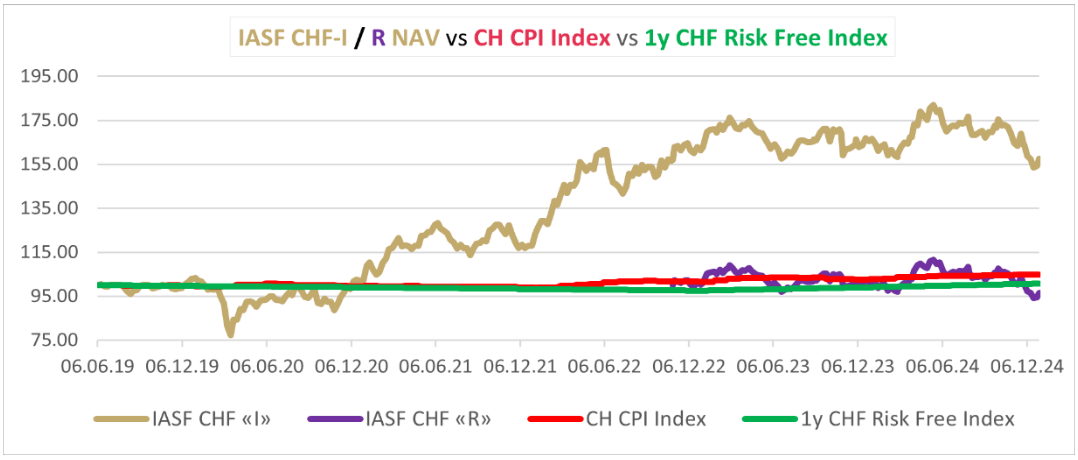
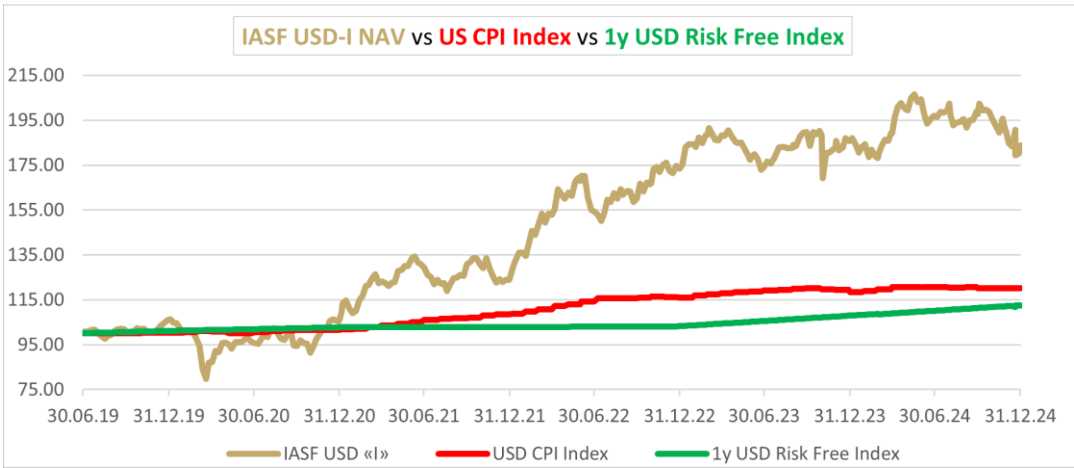
Appendix







* The charts show the NAV of the IASF up to the last valuation date (**31DEC2024**), compared with the risk-free 1-year government bond yield, as well as the relevant consumer price index (CPI) in the respective currency as a reflection of the loss of purchasing power from the fund's launch date (6Jun2019 for 'I' units; 26Sep2019 for EUR-R units, 20MAY2022 for EUR-V units, 2NOV2022 for CHF-R units) on an indexed basis


IASF PM Shaped By 8 Investment Lessons
1.
Capital markets, like the economy, are inherently cyclical in nature, and you must always know where you are in the cycle, while not hesitating to "Be fearful when others are greedy and greedy when others are fearful." (Warren Buffett)
2.
Prices paid determine future returns, i.e., the higher valuations are, the lower future return expectations must c.p. be (and vice versa), which is the essence of value investing.
3.
Capital preservation is the conditio sine qua non, and a consistent and long-term investment strategy is usually more rewarding than short-term momentum chasing.
4.
As a result, you must always know when you trade, or when you invest.
5.
The most basic and effective risk management tools are proper diversification and the ability to hold cash.
6.
Hard assets are preferable to intangibles, distributions to accruals.
7.
Look for the incentives: True alignment of interest works in investors' favor.
8.
There is no magic formula for perfect investing. Hence, consider both macro- and micro-economic issues, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science.
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