sasfin Wealth

Sasfin Global Equity Model (SGEM)

Quarterly Review – Q4 2024:
1 October 2024 – 31 December 2024

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Performance

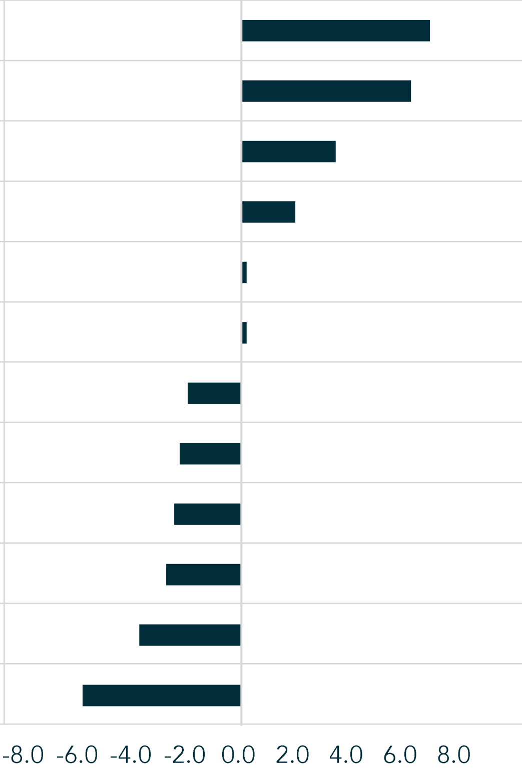
Total Return (%) - Period ended 31 December 2024

	Quarter	YTD	1 Year	3 Years[1]	5 Years[1]	Since Inception[1, 2]
SGEM	(2.1)	17.6	17.6	6.5	9.2	10.4
MSCI ACWI[3]	(1.0)	17.5	17.5	5.4	10.1	9.2

Source: Morningstar
Note:
1 – Annualised
2 – Inception date: 31 December 2014
3 – MSCI All Country World Index

Portfolio Positioning (% Weight)

Sector	SGEM	MSCI ACWI	Under/Over (%)
Health Care	16.7	9.7	
Consumer Discretionary	17.7	11.3	
Communication Services	11.7	8.2	
Cash	2.0	-	
Information Technology	26.2	26.0	
Materials	3.7	3.5	
Real Estate	-	2.0	
Financials	14.5	16.8	
Utilities	-	2.5	
Industrials	7.5	10.2	
Energy	-	3.8	
Consumer Staples	-	5.9	



Source: FactSet

Market Commentary

The MSCI ACWI Index, a broad measure of global equity markets, declined 1.0% during the quarter. The period was dominated by the U.S. presidential election, which saw Donald Trump regain control of the White House. Global markets, with the exception of the U.S., retreated at the prospect of a second Trump term, their declines exacerbated by the strengthening of the U.S. dollar.

During his second stint, Trump's policies, often referred to as the "Trump trade" or "Trump 2.0", are quite likely to include reduced regulation, lower taxes, immigration restrictions and higher tariffs. Even before his inauguration, the President-elect has threatened to wield the tariff stick. Tariffs can fuel inflation and bond yields climbed higher during the quarter in anticipation of such an outcome. The US 10-year benchmark yield ended the quarter 78bps higher at 4.57%.

The rise in bond yields has also been supported by the U.S. Federal Reserve ("Fed") adopting a more hawkish view. To cap off the year, Fed chairman, Jay Powell, announced a 25bps rate cut. It was however overshadowed by the Fed's projections for 2025 which signalled fewer rate cuts than previously expected.

The Trump trade is expected to lead to a stronger U.S. dollar which accounts for the upward jolt of the greenback during the quarter. The U.S. dollar index, a measure of U.S. dollar strength against other major currencies, gained 7.3% during the period.

U.S. equities are also expected to be benefit under the Trump administration. This was reflected in the strong gains by S&P 500 (+2.3%) and Nasdaq (+6.3%) indices. Conversely, the Trump trade, particularly higher tariffs, may serve as a headwind to other global equity markets and this was reflected in their quarterly performance. In local currency terms, there were declines in major indices such as Europe's STOXX 600 (-1.8%), Mainland China's CSI 300 (-1.7%), Hong Kong's Hang Seng (-4.9%), and India's BSE (-7.2%). The gain in the Japanese Nikkei 225 index (+5.4%) was the only positive standout. However, when accounting for the USD strength during the quarter, the underperformance of other global equity markets is amplified with even the Nikkei 225 ending in negative territory.

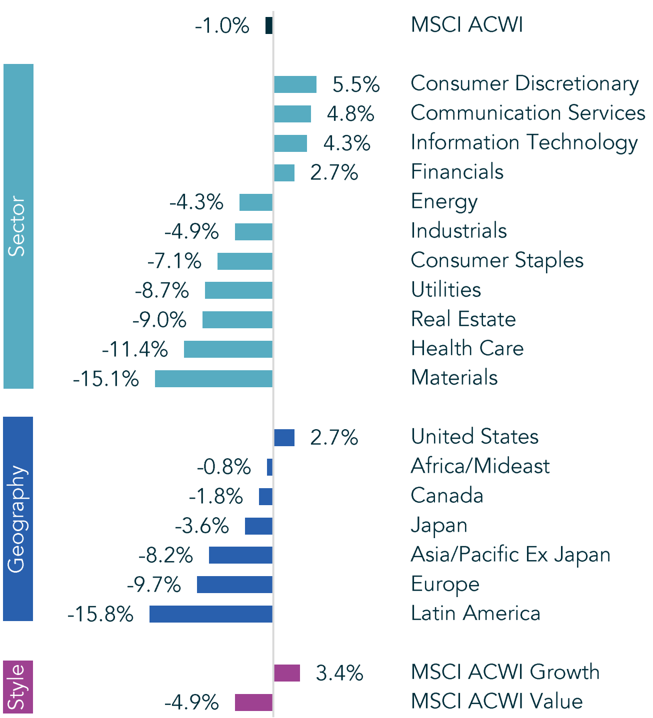
While the market is anticipating U.S. equities to benefit during the Trump era, not all are expected to do so equally. There are some that are likely to benefit more so than others from decreased regulation and lower taxes. Likely candidates include technology stocks, such as those within the Information Technology and Communications Services sectors as well as certain large cap names within the Consumer Discretionary sector (Amazon and Tesla). Financials, particularly those engaged in deal making, trading and cryptocurrencies may also prosper.

On the other end of the spectrum are the expected Trump trade losers. The notable standout in this regard is the Health care sector. Markets have grown concerned that Trump and his cabinet may disrupt the status quo in the healthcare industry. This could result in reduced profitability for major pharmaceutical companies and health insurers. The latter were pegged back even further during the quarter following the shock assassination of the CEO of UnitedHealthcare, the largest health insurer in the U.S.

Materials was the worst performing sector during the quarter. Trump tariffs and a weakened Chinese economy combined to depress commodity metal prices. Gold withstood much of the selling pressure as it ended the period only slightly down at $2,609/ozt (-0.8%). It has been a rollercoaster ride for the yellow metal. The price of bullion rose precipitously as tensions in the Middle East escalated and concerns around the growing U.S. deficit gained impetus. A Trump victory followed by the USD rally poured cold water over the party wiping out earlier gains from the quarter. Unlike previous periods of conflict in the Middle East, escalating tensions did not lead to a surge in oil prices. Increased U.S. oil production, which is expected to rise under Trump, as well as subdued demand in China, led to a relatively stable oil price during the period. Brent crude and WTI ended the quarter only slightly higher at $70 (+3.1%) and $69 (+5.4%) barrel respectively.

A less accommodating interest rate environment negatively impacted the Real Estate sector. Affordability remains a key issue in the U.S. housing market whilst the Commercial market seems set to remain stagnant in a higher-than-anticipated interest rate environment.

MSCI Index performance (USD %)



Source: FactSet

Performance and Attribution

The SGEM ended the quarter down 2.1%, underperforming, its benchmark's (MSCI ACWI) which declined 1.0% during the period.

Broadly speaking, there were two areas that contributed to the SGEM's relative underperformance against the benchmark. The SGEM maintains an overweight position in the Health care sector relative to the MSCI ACWI. This counted against the SGEM during the quarter given the sector's underperformance during the period. The other area that counted against the SGEM was the performance of our specific holdings within the Information Technology sector.

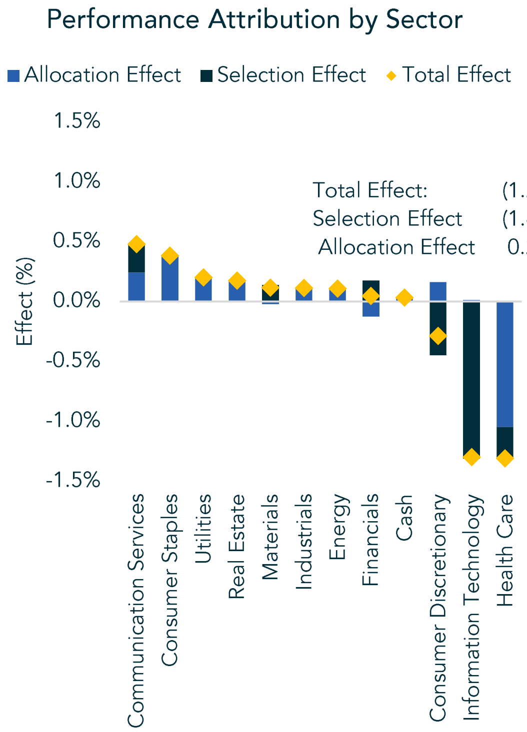
Health care stocks came under pressure during the quarter following Trump's US presidential campaign success. The U.S. Health care sector is highly profitable but there is a concern that companies within the sector, specifically health insurers and drug makers, are extracting too much value from the "profit pool" at the expense of the consumer. There is growing speculation that the status quo could change under a Trump presidency. The Republicans control both the House of Representatives as well as the Senate and there appears to be an increased emphasis to reduce government spending, with healthcare spend a primary target given its relative quantum.

Our holdings in the Health care sector were also challenged by stock specific issues. The brazen assassination of **UnitedHealth's** insurance division CEO sent shockwaves through the industry, leading to a sharp fall in stock prices for U.S. health insurers

Our holding in Danish pharmaceutical company, **Novo Nordisk**, declined sharply following the trial readout from its potential new weight loss drug. Weight loss results from CagriSema, the likely successor to its current blockbuster drug, Ozempic, underwhelmed investors. While it did show a sizable improvement relative to Ozempic, results were slightly below expectations.

Veterinary equipment maker, **IDEXX**, underperformed during the quarter. The firm disappointed investors with a lower-than-expected growth outlook for the next quarter. Growth remains subdued owing to a strained consumer in the U.S. as well as labour shortages in the industry, both negatively impacting growth fundamentals.

A number of our holdings within the Information Technology sector (**Apple, Microsoft, Nvidia**) outperformed the broader market during the quarter. However, their positive performances were overshadowed by the sizable gains of other stocks within the sector. A number of these stocks are closely tied to the AI theme, be it hardware or data infrastructure as well as cryptocurrencies.



Source: Morningstar

Two of our Information Technology sector holdings that did underperform during the period were **Adobe** and **ASML**. The latter surprised investors with a weaker-than-expected order book as chip manufacturers reassessed the current macro environment. The semiconductor equipment manufacturer did however maintain its longer-term outlook of strong chip demand and healthy profitability for the firm.

During the previous decade, the Software as a Service (SaaS) business model dominated the software industry. Adobe was a clear winner during this period. Markets are however concerned that during this new era of generative AI, Adobe may not be as successful. The new technology has unleashed a new competitive threat to the company and how it adapts it business model to operate within this new era remains quite uncertain.

We are still in the early stages of generative AI and Adobe is naturally focused on investing in this new platform. Return on this investment is yet to meaningfully materialise. Adobe does possess a near-impossible-to-replicate database from which AI models can be built. The firm's software is also highly integrated into many of its customer's design and marketing processes, creating high barriers to entry in the form of switching costs. That said we will continue to monitor how Adobe evolves during this new technological era and whether its economic moat remains in tact.

Performance and Attribution (cont.)

Despite underperforming the benchmark, many of the holdings within the SGEM outperformed during the quarter. We have already mentioned the likes of Apple, Microsoft and Nvidia but to that we can also include their Big Tech peers, Alphabet, Amazon and Meta.

Amazon was our best performing stock during the quarter. Despite being the largest cloud computing company in the world, via Amazon Web Services, it has been regarded as somewhat of a laggard in terms of AI.

That could soon change as Amazon deploy its inhouse designed chip, Trainium2, in an attempt to challenge the market leader Nvidia.

Compared to previous periods, the final quarter of the year was somewhat quiet for **Nvidia.** The AI poster child once again announced record revenues during its quarterly update. However, growth has begun to decelerate as investors have become increasingly weary as to how long the firm can maintain its positive momentum.

While Nvidia may still hold the AI crown, for many years, **Alphabet** was regarded as the market leader when it came to AI. However, when OpenAI launched ChatGPT in late 2022, there was a belief that Alphabet had fallen behind. Perhaps such a judgement was premature. In a series of product launches late in the quarter, Alphabet reminded the world that it is indeed a leader when it comes to AI. The firm launched a video generation tool, Veo 2, an image generation tool, Imagen 3, and Gemini 2, the firms latest large language model. All of these products are believed to be as good as, if not better, than the competing products of OpenAI.

The firm also surprised the market by introducing a new quantum computing chip called Willow. Quantum computing is still regarded as a frontier technology but the possibilities that could emerge from this new type technology could prove to be substantial, both technologically as well as financially.

TOP PERFORMING STOCKS			BOTTOM PERFORMING STOCKS		
COMPANY	GICS SECTOR	CONTRIBUTION (USD %)	COMPANY	GICS SECTOR	CONTRIBUTIO N (USD %)
Amazon	Consumer Discretionary	1.0	Novo Nordisk	Health Care	(1.0)
Nvidia	Information Technology	0.9	UnitedHealth	Health Care	(0.7)
Visa	Financials	0.7	ASML	Information Technology	(0.7)
Alphabet	Communication Services	0.7	Linde	Materials	(0.5)
Apple	Information Technology	0.3	IDEXX	Health Care	(0.5)

Source: Morningstar

CHANGES IN HOLDINGS

There were no new additions nor did we exit any positions during the quarter.

Outlook and Way Forward

A review of Wall Street's predictions for 2025 reveals a cautiously optimistic outlook. Consensus seems to be that the U.S. stock market will return a positive, albeit modest gain, when compared to the previous two years.

The eye of the market will be intensely focused on Donald Trump and the policies that he does and does not implement. Tariffs, tax cuts and deregulation are expected but with the mounting concern around the U.S. deficit, could we possibly see sizable changes in government spending? Of course, implementing tax cuts and tariffs is a lot easier than reducing government spend, especially when it comes to benefits for the electorate.

The Fed's somewhat hawkish turnabout has dampened enthusiasm around rate cuts. Trump's policies of tariffs and tax cuts could prove to be somewhat inflationary which may embolden the Fed to reverse course and reaccelerate on their rate cutting trajectory. Could the market get those additional rate cuts after all?

The increased sense of positivity around the U.S. was reflected in the latest quarterly performance figures. Taking a longer-term view shows that the relative strength of the U.S. stock market actually stretches all the way back to the end of the Global Financial Crisis. It has manifested into the U.S. now accounting for a sizable portion of global equity markets. Spearheaded by trillion dollar tech titans, the U.S. currently represents more than two thirds of global stock market capitalisation.

One of the consequences of the U.S. having become a favoured destination for investors, be it locals or foreigners, has been the constant increase in U.S. stock valuations. U.S. companies trade at a sizable premium when compared to stocks in other markets. Premium valuations and excess concentration has led many to regard the U.S. as "too expensive" with some even referring to the U.S. as one massive bubble.

At some point, these concerns may become too significant for investors to stomach, resulting in a rotation out of the U.S. into overlooked markets offering more attractive valuations. Of course, moving outside of the U.S. comes with a different set of problems. Many countries across Europe are caught up in political turmoil. Two of Europe's largest nations, France and Germany, are battling to maintain some element of government stability and Britain is not faring much better itself. Growth is an even bigger concern. European nations have shackled themselves with burdensome regulations which has had the impact of stifling growth in the region.

Europe has clearly fallen behind its international peers and the underperformance of its stock markets mirrors the lack of progress. Valuations across the region may appear attractive but they are a reflection of the market's assessment of the challenges facing the region. Perhaps investors are too pessimistic but without any change towards regulations and initiatives to encourage growth and innovation, valuations may remain at their depressed levels for some time to come.

China continues to struggle with its own structural issues. The nation has not fully recovered from the impact of the pandemic and the real estate crisis currently facing the economy has highlighted an even greater concern for the nation, debt. The Chinese government has and is likely to continue to introduce stimulus measures in effort to reignite the stuttering economy but a lack of growth only serves to exacerbate concerns around debt in the region.

We would be remiss if we did not mention that both Europe and China do contain some exceptional companies. In the case of China, the valuations for these companies reflect the macroeconomic headwinds which appear more structural than cyclical. Structural issues, such as China's growing debt pyre, give us reason to pause when considering investment opportunities. We are however reminded of a Daenerys Targaryen quote "fire cannot kill a dragon".

In the case of Europe, it is somewhat of the opposite. Companies that are able to grow and innovate in spite of government regulations are highly sought offer. As a result their valuation multiples reflect a crowding of investors and it is therefore difficult not to consider many of these quality European companies as expensive.

Our approach to navigating these markets will remain the same. Invest in quality businesses at a reasonable price. To our mind, quality is best described as companies that are able to sustainably earn high returns on their capital and reinvest them back into sizable growth opportunities.

A reasonable price is one that fairly reflects the potential shareholder value that can be created from investing the returns into the opportunities, perhaps with an element or margin of safety.

PORTFOLIO CHARACTERISTICS					
	SGEM	MSCI ACWI		SGEM	MSCI ACWI
Quality[3]			Valuation[3]		
Return on Equity (ROE)	41.4%	15.7%	P/Earnings	27.4x	17.9x
Return on Invested Capital (ROIC)	26.5%	7.6%	P/Book	10.9x	2.9x
Earnings Before Interest and Tax (EBIT)	29.7%	13.6%	P/Sales	7.5x	2.2x
Gross Profit	56.3%	35.2%	FCF Yield	3.6%	4.3%
Growth[3]			Risk/Volatility[2]		
Sales growth[1]	17.5%	9.8%	Beta	0.9	0.9
Earnings growth[1]	23.2%	13.8%	Std Deviation	14.3	14.8
Size[3]			Sharpe Ratio	0.6	0.6
Market cap	USD1,071bn	USD750bn	Sortino Ratio	1.0	0.8

Source: FactSet, Morningstar
Notes:
1 – Trailing twelve months 3-yr annualised growth rate
2 – Risk statistics calculated since SGEM inception (31 December 2014)
3 – SGEM Quality, Valuation and Size characteristics calculated using market cap weighted averages, SGEM Growth characteristics reflect median values

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