

## Monthly Commentary 7<sup>th</sup> of April 2025

March proved to be a difficult month for equity markets, primarily due to negative tariff news and general investment uncertainty. In several instances, high-quality companies were sold off for reasons unrelated to their fundamentals, with broader market anxiety influencing investor behaviour. All major stock indices were down for the month with the S&P500 leading the way (down 5.75%). The Nikkei and the MSCI Euro Index followed with drops of -4.14% and -3.66% respectively and the FTSE 100 was down 2.58%.

Global aggregate bonds rose slightly in March (+0.62%) as investors seek protection from market turbulence. Gold was once again the big winner, continuing its winning streak with a 9.3% profit in March. Oil was also up 2.47%.

The dollar continued its negative streak on tariff fears and possible recession in the U.S. The DXY Index which tracks the dollar against a basket of currencies fell 3.16% for the month. Bitcoin was also affected negatively for the month losing 2.13%.

Of course, all the March numbers seem meaningless due to the news on April 2<sup>nd</sup> of massive new tariffs the US is placing on the rest of the world. This is a significant event as it might change the whole world trade order. **As such, this market commentary is dedicated to what effects this might have on the world economy and how that may be manifested in financial markets.**

### War on Trade

We have received quite a few messages from clients that are concerned about the developments with tariffs placed across the board on almost all imports into the US. These concerns are valid.

While up to now the threats could be associated with negotiating tactics, the reality is that the tariffs are far wider in scope than most analysts had expected. An article in the Economist concludes with the following quote:

*“You can throw most forecasts out the door,” noted Olu Sonola of Fitch Ratings. “Many countries will likely end up in a recession.” Despite their callous arbitrariness, Mr Trump insists on calling his new tariffs “reciprocal”. “They do it to us, and we do it to them,” he explained. By sowing chaos, inviting recessions and rattling the financial markets, the new tariffs are doing it to everybody.*



CHART: THE ECONOMIST

Of course, this is a very fluid environment, and the very nature of the US administration is one that (possibly) purposely seeds uncertainty, so we cannot be absolute in the verdict that things are universally bad and the world is coming to an end. Bank of America has summed up the uncertainty much better than we could:

*Investors looking for historical parallels are faced with scant observations from incomparable eras (e.g., 1930s Smoot Hawley ended badly). Import/export exposure by company is difficult to estimate and not regularly disclosed. Full supply chains are hard to figure out. Secondary impacts are even hazier: prolonged negotiations could stall activity spiraling into a recession. Calls to boycott US goods could ramp further. But pricing power and currency moves can mollify tariff impacts. Ex-US multinationals can avoid tariffs (and maybe enjoy lower corporate tax rates) by expanding US footprint. Our constructive equity outlook relies on at least partial resolution from which corporates can plan and grow by early 2H25, as capacity buildouts are multi-quarter phenomena.*

The main decisions we need to make as managers of your portfolios is how to react and when, and for how long? Below are our thoughts:

1. It is not a good idea to sell while there is panic selling, as happened on April 4<sup>th</sup> and 5<sup>th</sup>.
2. If and when we do sell, what do we sell, how much do we sell as a percentage of the overall portfolio?
3. If we do sell, what will the criteria be to start buying again?
4. Is this actually a buying opportunity rather than selling?



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All we can say in defence of not selling is that by and large, we hold positions in the world's leading companies that have high barriers to entry. They have top management teams and will navigate the new reality much as they have during past crises - i.e. successfully. We find it difficult to believe that the likes of Airbus, Microsoft, JP Morgan, Nvidia, Visa and Hermes, as well as many others have had their long-term outlooks irreparably destroyed by these tariffs. As such, we'll be monitoring the situation and do not be surprised if we actually end up buying some companies during this mayhem, while selling/reducing others. Panic creates buying opportunities too, and looking back, this might be one of them.

## Afterthoughts

We leave you with two points, both of which have to do with AI. As Jamie Dimon of JP Morgan wrote in his last CEO letter:

*"We are completely convinced the consequences of AI will be extraordinary and possibly as transformational as some of the major technological inventions of the past several hundred years: Think the printing press, the steam engine, electricity, computing and the Internet, among others"*

**To that effect is point number one.** JP Morgan itself has said that they currently have at least \$2B of AI benefits from fraud detection, risk management, consumer marketing and more. Hiring the top talent, with a tech budget of \$18B this year, 44,000 software engineers and one exabyte of data available to unlock value, it has developed such a moat that it will be hard for any competitors to catch up. So, what is not to like about JP Morgan's stock falling 25% from its mid-February high? Even if it falls further due to panic selling, we would be surprised if it is not much higher than it is today with a medium-term horizon. It has produced a market beating 17.7% annual return in the last 10 years!

On the following page, from Wells Fargo, is a ranking of banks based on where they are on the AI front. As you can see, JP Morgan, which is one of the biggest holdings in our Best Ideas portfolios, ranks first. Of European banks, BNP Paribas, which we also invest in, is first.



## AI INDEX RANKINGS

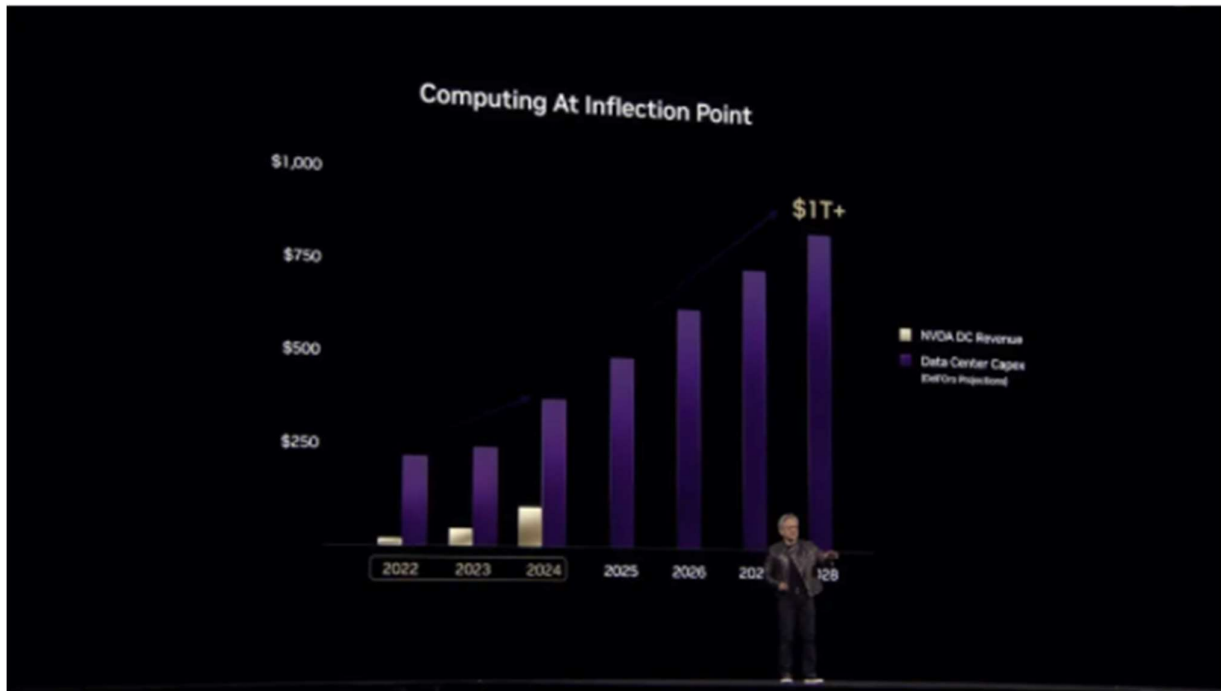
COMPANY	RANK	▲ YoY	TALENT Capability & Development	INNOVATION Research, Patents, Ventures, Ecosystem	LEADERSHIP Public Communications and Strategy	TRANSPARENCY of responsible AI activities
JPMorganChase	1		2	1	3	1
Capital One	2		1	3	14	14
Royal Bank of Canada	3		6	2	8	10
Wells Fargo	4		4	5	36	8
CommBank	5	+1	7	12	2	5
UBS	6	-1	3	18	15	15
HSBC	7	+6	15	9	5	3
Citigroup	8	+1	5	7	13	43
TD Bank	9	+2	10	8	20	16
Morgan Stanley	10	+7	18	4	17	42
Goldman Sachs	11	-4	13	6	27	37
BNP Paribas	12		12	14	6	21
BBVA	13	+13	8	20	7	26
BNY	14		20	13	10	11
Bank of America	15		11	11	18	20
DBS	16	-6	21	50	1	7
ING	17	-9	9	19	9	24
NatWest	18	+1	16	23	16	9
Standard Chartered	19	+4	31	15	11	2
Scotiabank	20	-2	22	36	22	4
Société Générale	21	-1	17	30	23	29
CIBC	22	+19	29	28	24	6
Intesa Sanpaolo	23	+2	46	24	4	12
Bank of Montreal	24	-8	27	10	39	17
Barclays	25	-3	19	21	45	28
Deutsche Bank	26	+3	25	16	31	33
Lloyds Banking Group	27	+1	28	17	33	19
Santander	28	-7	23	31	34	18
ABN AMRO	29	-5	14	35	35	46
Rabobank	30	+1	24	41	29	30
State Street	31	+8	38	26	21	27
Crédit Agricole	32	-5	34	25	28	40
ANZ	33	+5	36	40	12	25
NAB	34	+1	32	46	32	13
PNC Financial	35	+1	26	38	44	35
US Bank	36	-2	30	32	37	32
Westpac	37	-4	37	39	19	22
KBC	38	-1	45	22	26	39
Citizens Financial	39	+10	33	47	30	47
Groupe BPCE	40	+6	43	37	43	41
CaixaBank	41	-1	40	45	38	38
Danske Bank	42	+2	35	49	48	34
Truist Bank	43	-13	44	34	46	45
Crédit Mutuel	44	+1	50	27	25	31
Commerzbank	45	-3	48	42	41	23
UniCredit	46	-3	47	29	50	36
Raiißen Bank Intl	47	-15	41	43	42	49
Nordea	48		39	48	47	44
Charles Schwab	49	-2	42	44	40	48
First Citizens	50		49	33	49	50

Source: Evident Insights and Wells Fargo Securities, LLC

Yellow highlights represent companies under WFS coverage.



**The second point** is a graphic from Jensen Huang (CEO of Nvidia) from his recent presentation at Nvidia's GPU Technology Conference. It shows the staggering projection of how much Capital Expenditure there will be over the next 4 years on Data Centers. By 2029 the number is \$1T. So do we really want to sell the top tech companies in our portfolios?



While there will be many setbacks along the way, as we are experiencing currently, we have strong conviction that the AI revolution is here to stay and will reward patient investors who stick with today's top companies in the field, but also the ones that are non-tech and poised to benefit greatly from the use of AI.

The Elgin Analysts' Team

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