APRICUS FINANCE

WEALTH MANAGEMENT

November 2024

Trump 2.0

There is a saying: the S&P 500 is the best economist on Wall Street. Now it is also the best political analyst.

Ahead of the Presidential election, the markets spent the month reducing risk exposure to both equities and rates. Investment banks estimated that exposure to equities from both long only as well as alternative funds had been reduced to March 2023 levels.

During the first part of the month, the general impression was that Vice-President Kamala Harris was losing speed and her lead. During the second part of the month, it became apparent to many that Trump would succeed in winning the White House, while control of the Senate and the House was still up for grabs.

Investors thus started positioning for a Trump victory, based on:

- The perspective that the 2017 tax cuts will be renewed and be accompanied by others
- Potential tariffs will not lead to adverse outcomes
- Less regulation on the financial sector
- Lower energy prices due to increased production
- A friendly and deregulated approach to cryptocurrencies

Exposure thus started to increase to large banks, oil services, health services, small caps, Tesla, cryptocurrencies and crypto-related stocks, and obviously Trump's Media and Technology Group, (DJT).

The day after the election, with results released so quickly and a clean victory, along with the perspective of Republicans taking over both the Senate as well as the House, (a clean sweep), and on top of it, amidst overall low exposure, the markets went into a frenzy. Daily moves by stocks such as Tesla were reminiscent of the meme frenzy in January 2021. Small caps largely outperformed large caps, an index for large banks surged 12% in one single day, and Bitcoin surged 27% in a week.

Over the last few days, we have seen a reversal of this outperformance, in particular, small caps have lost much of their advance, on the contrary, Bitcoin stayed near its all-time high, at or above 90'000.

On the other hand, European equities were caught by the propsect of tariffs, and the perceived failure by China to kickstart its economy, (more on this below): as a result, European equities have underperformed American ones by 5% since the election, as sectors such as cars, luxury and companies with a large US or Asia (or both) exposure, got hit. The index of US listed Chinese ADRs has lost a whopping 10% since the election, bringing its losses to over 21% since this year's October peak.

Apricus Finance SA, Rue du Rhône 30, CH - 1204 Geneva, Switzerland
Tel. +41 22 317 88 40 – Fax +41 22 317 88 50

Why This Is Not the Redux of 2016, and Why It Is Difficult to Make Forecasts for 2025

When self-proclaimed 'King of Debt' Trump won the election in 2016, inflation was tame, the US Federal Reserve target was at 0.5%, and 10-year treasury yields were at 1.5%.

There were also tailwinds from an economy that was finally emerging from 6 years of near stagnation.

Currently, the economy is slowing but still reasonably strong, inflation is still above the 2% target, policy rates are coming down but are still at 4.75% and 10-year yields are close to 4.5%.

There are several wrinkles to the scenario that would see Trump boost the economy, and fully implement its fiscal policies, and it will start before he is officially inaugurated on January 20th.

Congress set up a spending fight at the end of this year, after passing a stopgap bill in late September to fund the federal government until December 20th.

Lawmakers on Capitol Hill thus face major deadlines, including averting a federal government shutdown before the end of 2024 and taking action to address the debt limit in the new year. In fact, the Federal debt limit will be reinstated on January 2nd.

There are also growing calls for Congress to pass additional disaster relief measures quickly - in the wake of hurricanes Milton and Helene and the widespread damage caused by the storms.

Also, before the end of the year, a new 5-year farm bill must be decided, although the current one could be extended for another full year.

The other major wrinkle might come from the US Federal Reserve, (Fed). If Trump's agenda drives economic growth that is accompanied by higher inflation it could change decisions on policy. Indeed, the markets didn't wait when in mid- September Vice President Kamala Harris was perceived as the likely winner, markets discounted a policy rate settling at 2.8% by the end of 2025, now we stand at 3.9%.

Indeed, current inflation is certainly declining but is still too high: October's core consumer price index, excluding food and energy costs, came in at a 3.3% annual rate, far above the Fed's desired target. Groceries at the supermarket, whilst increasing more slowly than just a year ago, are, on average, still 28% above their pandemic levels.

A mass deportation of illegal immigrants, who have been a boon to a post-pandemic economy lacking workers, along with a much tighter control of borders, are likely to exert upward pressure on wages. Tariffs, if fully implemented, are likely to add 0.3% to the inflation figure in 2025 and 2026.

Adding to uncertainty over the future is the recently appointed Department of Government efficiency led by Musk and Ramaswamy. They claim they could reduce government expenses, (currently around 6.7 trillion), by 2 trillion. However, only 47% of it is discretionary spending, so, unless deep cuts are made into items such as defense and veterans it looks like a long shot to counter the giant fiscal deficits if Trump fully implements what he campaigned to do.

In view of the recent, and likely upcoming, nominations to his cabinet of fiercely loyal people with the same view, nothing is impossible in 2025, even dismantling the social state, (or parts of the police, such as the FBI), which would take years to re-establish.

China Keeps Trying, But Leaves Investors Disappointed

China is turning up stimulus in a policy pivot that stands to lift growth in the near term. Policymakers have unveiled monetary and fiscal stimulus and support for the housing and stock markets in a barrage of announcements since late September. The latest measures addressing its real sector were a cut in taxes when purchasing a home, particularly those of less than 140 m2.

The missing part is still fiscal policy, destined to revive consumer confidence and consumption, for which little or no details were given.

Maybe the government is trying to save some dry powder for next year, with the increasing probability of a full-blown trade war with the United States.

Strategy

In view of what has been discussed earlier, and the uncertainty we are expecting, we will not chase recent trends.

In terms of fundamentals, the US earning season has been quite strong, yet again: we were expecting 3-4% earnings growth, and with 92% of companies having reported, it looks more like 7%. Just a few companies are left to report, and, among them, the company everybody is waiting for is the mammoth Nvidia on November 20th.

In Europe, aggregate reported earnings were above expectations, by about 3%. Big disappointments however were registered in the car and the luxury sector, (along with a surprising announcement by technology stock ASML), which eventually pulled the earnings' growth rate to -1%. Negative earnings growth was registered by car manufacturers, energy, technology and telecoms, all others in aggregate were positive.

During the month, no major changes were made to our asset allocation.

Europe is currently clearly encountering economic headwinds and disaffection from international investors. However, there could be a positive spin: this could force the European Central Bank, Brussels, (think about Draghi's suggestion), and Germany to more forceful action to stimulate its economy, and, as highlighted in previous editions, Germany is the country that has the room to implement a major stimulus package to revamp its infrastructure and industrial assets.

The conflict in the Middle East also remains highly uncertain, and a widening on a regional scale remains a possibility.

Goldman estimates that if the US implemented its proposed tariffs in full on day one of the Trump administration, it would impact 2025 European GDP growth by 0.5%, ranging between 0.6% in Germany and 0.3% in Italy.

With this perspective in mind, and after the gains seen so far this year in our portfolio, near term, we are likely to reallocate some of our overweight from the Eurozone to the US, mindful that currently this overweight has not impacted our portfolio negatively. Namely it is concentrated in the financial sector, which is outperforming at +30% year-to-date, and in industrials, that, in aggregate, are up 15% or roughly in-line with the S&P 500 ex the Magnificent 7. Our overweight positions are also coupled with large underweights in the luxury and car sector.

We would therefore move closer to the benchmark. Another reason to cut active risk in our portfolio is the likely inter-market and intra-indices volatility that we might see over the next few weeks, ahead of year end: on one side many portfolio managers are likely to reposition themselves in view of the uncertainties from early 2025. On the other, in 2024 there has been a wide dispersion of performances among fund managers, who might do more 'window dressing' than usual. We think in part that process has already started.

Equity

We keep an overweight in Eurozone equities versus the US broader market, while being neutral in the technology sector.

We continue to own, (a now reduced), partial put on US equities.

Fixed income

We continue to favor exposure to credit versus duration. We have exposure to investment grade credit, European high yield, hybrids, financials' subordinated debt, US municipal infrastructure and Asian hard currency debt.

Foreign Exchange

The Japanese YEN exposure is mostly hedged, while we do keep a 5% exposure to the US Dollar

Gold

We continue to keep our allocation to Gold at about 5%: while it doesn't provide any yield, it continues to be a good diversifier in a multi-asset portfolio. This year it is the best relative contributor to the portfolios.

Conclusion

The perspective of lower rates going forward and continuing disinflationary trends are supportive for equity markets, fixed income, and thus a balanced portfolio.

Positioning

Overall Exposure

We are now Neutral Equities, and Neutral Fixed Income, with a Gold position, partially USD and JPY hedged.

Equity: Neutral

We have a very sizeable Overweight to the Eurozone and a very sizeable Underweight in US equities, Slight Underweight US technology, Overweight Nasdaq 100 equal weight, Neutral UK, Neutral Japan, Overweight Asia ex Japan.

Thematic Equities

European Family Holdings, Asian Technology, Health Improving Technologies and Services, European Champions.

Fixed Income: Neutral

Long 1 to 3 years US Treasury Notes. Long 20+ years US Treasuries, Underweight Sovereigns. Overweight Investment Grade EUR and USD Bonds. Overweight High Yield in EUR and Underweight in USD.

Thematic Fixed Income

Long US Municipal Infrastructure Bonds, Long Hybrids, Long Subordinated Financial Credit & Long Asian Bonds in hard currency.

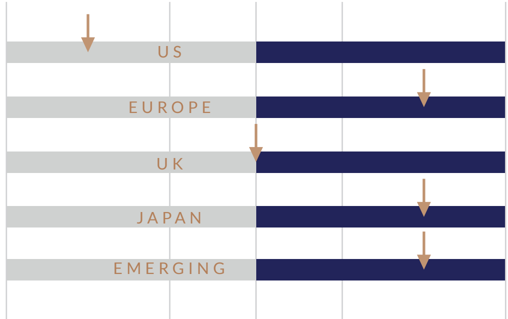
Currencies: Portfolios have a 5 % USD exposure.

Commodities: Overweight

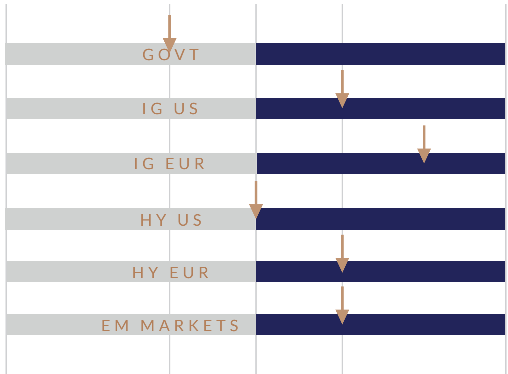
Long Gold.

Conviction thermometer

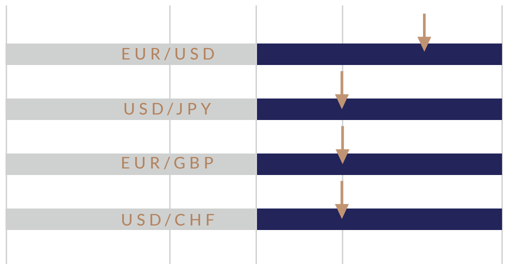
Equities



Bonds



Currencies



Commodities

Negative view Positive view

Market overview as of 31st October 2024

Equities (local ccies)	Level	5D	MTD	YTD	2023
MSCI WORLD	3 647,14	-1,61%	-1,96%	16,96%	24,44%
US S&P500	5 705,45	-1,79%	-0,92%	20,96%	26,26%
NASDAQ 100	19 890,42	-1,68%	-0,82%	18,99%	55,13%
RUSSELL 2000	2 196,65	-0,99%	-1,44%	9,56%	16,88%
EUROPE EURO STOXX 50	4 827,63	-2,09%	-3,30%	10,12%	23,21%
GERMANY DAX	19 077,54	-1,88%	-1,28%	13,88%	20,31%
FRANCE CAC40	7 350,37	-2,04%	-3,71%	0,34%	20,10%
BELGIUM BEL20	4 214,05	-1,40%	-1,97%	16,61%	3,51%
SWISS MARKET INDEX	11 792,92	-3,12%	-3,09%	9,32%	7,06%
UK FTSE100	8 110,10	-1,92%	-1,45%	8,20%	7,68%
JAPAN TOPIX	2 695,51	2,28%	1,88%	16,40%	28,28%
MSCI EMERGING	1 119,52	-1,30%	-4,32%	12,11%	10,20%
BRAZIL IBOVESPA	129 713	-0,27%	-1,60%	3,33%	22,28%
CHINA CSI 300	3 891,04	-0,94%	-3,02%	16,67%	-9,14%
HS TECH	4 499,15	0,34%	-5,32%	20,67%	-8,25%
INDIA SENSEX	79 389,06	-0,74%	-5,70%	11,26%	20,34%
KOREA KOSPI	2 556,15	-0,96%	-1,43%	-2,50%	20,52%
HONG KONG HANG SENG	20 317,33	-0,83%	-3,84%	24,25%	-10,46%
AUSTRALIA ALL-SHARE	4 431,83	-1,89%	-1,64%	7,99%	7,70%
SAUDI ARABIA TADAWUL	11679.50	1,15%	-1,66%	-3,08%	18,10%

US: Sectors	Level	5D	MTD	YTD	2023
COMMUNICATION SVCS	320,25	2,32%	1,94%	31,31%	55,80%
CONSUMER DISCRETIONARY	1 580,24	-1,40%	-1,55%	12,14%	42,30%
CONSUMER STAPLES	861,70	-1,99%	-2,80%	15,42%	0,52%
ENERGY	681,25	-1,29%	0,79%	9,22%	-1,42%
FINANCIALS	773,41	-1,30%	2,69%	25,17%	12,10%
HEALTH CARE	1 711,50	-1,68%	-4,62%	9,07%	2,06%
INDUSTRIALS	1 131,09	-1,43%	-1,35%	18,58%	18,08%
INFORMATION TECHNOLOGY	4 359,55	-3,29%	-0,97%	29,04%	57,84%
MATERIALS	586,14	-1,66%	-3,49%	10,16%	12,55%
REAL ESTATE	270,90	-2,74%	-3,27%	10,56%	12,35%
UTILITIES	405,90	-2,00%	-1,02%	29,29%	-7,08%

EUROPE: Sectors	Level	5D	MTD	YTD	2023
BASIC MATERIALS	2 869,10	-1,10%	-6,40%	-1,53%	5,95%
CONSUMER GOODS	3 827,55	-3,88%	-4,44%	0,62%	-2,46%
CONSUMER SERVICES	1 477,46	-2,45%	-4,78%	0,22%	21,53%
FINANCIALS	1 052,75	-1,37%	-0,53%	22,82%	25,42%
HEALTH CARE	3 837,49	-4,02%	-3,87%	11,50%	8,75%
INDUSTRIALS	4 114,74	-1,19%	-1,36%	13,86%	27,43%
OIL & GAS	1 423,45	-2,43%	0,12%	-2,64%	9,01%
TECHNOLOGY	1 780,63	-3,84%	-7,24%	5,25%	34,72%
TELECOMS	613,91	-2,16%	1,53%	21,86%	8,86%
UTILITIES	2 081,20	-3,25%	-4,55%	6,08%	14,75%

Market overview as of 31st October 2024

Fixed Income	Level	5D	MTD	YTD	2023
Pan-Euro 3-5 yrs IG	210,35	-0,87%	-0,88%	2,33%	6,68%
Euro Aggregate	241,60	-0,76%	-0,75%	1,73%	7,19%
Pan-Euro HY Hedged Eur	448,11	0,07%	0,67%	7,10%	12,32%
Global Inflation hedged EUR	236,70	-0,67%	-1,72%	-0,47%	2,02%
US Corp High Yield	2 264,90	-0,01%	-0,54%	7,42%	13,45%
EM USD Aggregate TR	1 260,87	-0,01%	-1,37%	6,68%	9,09%
EM Aggregate TR Local Ccy	150,05	-0,16%	-2,99%	2,54%	6,91%
EUR Banks CoCo Tier 1	157,61	-0,83%	-0,40%	9,61%	5,04%
EU GOVT HEDGED EUR	212,50	-0,94%	-1,34%	0,04%	6,31%
Global Aggregate	2 554,99	-0,34%	-3,35%	0,12%	5,72%

Commodities	Level	5D	MTD	YTD	2023
GOLD	2 743,97	0,29%	4,15%	33,01%	13,10%
COPPER	434,00	-0,26%	-4,68%	11,55%	2,10%
OIL WTI	69,26	-1,32%	1,60%	-3,34%	-10,73%
OIL BRENT	73,16	-1,64%	1,94%	-5,04%	-10,32%

Currencies	Rate	5D	MTD	YTD	2023
EURUSD	1,0884	0,52%	-2,25%	-1,40%	3,12%
GBPUSD	1,2899	-0,59%	-3,56%	1,32%	5,36%
USDJPY	152,0300	0,13%	5,85%	7,79%	7,57%
USDCHF	0,8641	-0,18%	2,19%	2,70%	-8,99%
AUDUSD	0,6582	-0,87%	-4,79%	-3,38%	-0,01%
EURCHF	0,9403	0,31%	-0,13%	1,23%	-6,13%
USDCNY	7,1180	-0,03%	1,41%	0,25%	2,92%
USDKRW	1 376,95	-0,26%	4,73%	1,72%	1,79%
USDINR	84,0837	0,01%	0,34%	1,05%	0,57%
USDIDR	15 697,00	0,73%	3,68%	1,95%	-1,10%
USDBRL	4,8572	-0.08%	-1,27%	-7,55%	-8,01%
USDTRY	34,2577	0,03%	0,18%	16,02%	57,82%
BITCOIN	69 937,51	2,62%	9,65%	66,77%	152,94%

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