# FOREWORD

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We welcome 2025 with a degree of apprehension. Political upheaval and geopolitical tension have become the new normal. Markets have diverged, with extreme concentration now evident in US markets. 'American Exceptionalism' is the subject of *Did You Know?* in this 72nd issue of *Foreword*.

In the lead article this quarter, Mike Townshend reflects on the year that was in *2024 in Review*. Five of Foord's seasoned portfolio managers weigh in on possible investment themes this year in *It's a Minefield Out There — How to Thrive in 2025*. Rashaad Tayob shares his thoughts on Trump's return to power in *The Trump Trade — What a Second Trump Presidency Could Mean for Markets.* Dhersan Chetty covers a lesser-known sector of the local bourse in *Food Producers — Back on the Menu*. I write about portfolio manager developments in *Update on the Multiple-Counsellor Manager Mix for 2025.* And finally, we round off with our quarterly market overview in *Markets in a Nutshell*.

Enjoy the read and all the best for 2025.

Paul Cluer
Managing Director

Last year was one of political upheaval and geopolitical tension, with key events shaping markets and influencing investment outcomes worldwide. Portfolio manager MIKE TOWNSHEND reviews the key investment events of 2024 and the performance of the Foord investment funds.

Arguably the most noteworthy event of last year was the remarkable comeback of Donald Trump. US share markets were immediately positive on the assumption that Trump's pro-growth stance would stimulate the American economy. The dollar and Bitcoin were also major beneficiaries.

However, Trump's unpredictability means that risks abound. If he becomes mired in cronyism, deports illegal immigrants en masse, persecutes his political enemies or engages in trade wars, his presidency could harm the global economy.

Ongoing military conflict, particularly in the Middle East, meant geopolitical risk remained high. Israel invaded Lebanon, the Hamas leadership was all but wiped out, Iranian President Ebrahim Raisi died in a helicopter crash and Syrian rebels took control of Damascus in December, bringing an abrupt end to the 53-year rule of the abhorrent Assad regime.

Further north, the seemingly intractable Russia/Ukraine war continued. Russia pounded Ukrainian infrastructure and eked out small territorial gains. Ukraine responded by invading the Kursk region. North Korea later dispatched troops to the front. While a quick Trump resolution to this conflict seems unlikely, it could have positive implications for markets.

In South Africa, the ANC lost its majority for the first time since the end of apartheid. Unusual for a liberation movement, the ANC accepted the result. It chose a Government of National Unity (GNU) over a coalition partnership. The GNU included the more reform-minded Democratic Alliance. This positive political development helped the rand hold its value against the US dollar in 2024, when most other currencies traded weaker against the mighty greenback.

As inflation eased, global central banks commenced interest rate cuts for the first time in years. The US Federal Reserve cut rates three times during the year, taking its main rate down to 4.5% by year end. Inflationary concerns resurfaced towards the end of the year, with the Fed signalling that it would drastically slow the pace of cuts in 2025. This caused consternation in markets, with equities and bonds both weakening at the tail end of the year. Developed economy bond markets were negative for the year.

Despite this, 2024 was optically a good year for equities. The index of global developed share markets rose 19% in US dollars. However, almost all this gain was attributed to US share markets, with the rest of the developed world effectively contributing nothing. The US S&P 500 Index rose by 23%, matching its 2023 performance. Once again, the Magnificent Seven group of tech giants outperformed — delivering over 60% for the year as a cohort. Chipmaker Nvidia, whose share price increased by 171%, vied with Apple and Microsoft for the title of world's most valuable company.

In contrast, the Russell 2000 Index of smaller American companies delivered a more sedate 9%. The share market's breadth — measured by the number of advancing shares vs the number of declining shares — was at its lowest annual level in at least 20 years. Japanese markets exceeded their 1990 bubble highs for the first time in 34 years. The Nikkei 225 gained 19%, much of it on double-digit yen weakness against the US dollar. Emerging markets lagged: advancing just 5% for the year, despite Chinese markets rallying 16.5%.

South Africa recorded a tepid 1% annual economic growth to the end of September. The outlook was nevertheless rosier as investors anticipated improved delivery from the GNU. Most asset classes delivered decent inflation-beating returns. The listed property sector was the standout, gaining 29%. Bonds delivered a decent 17%, JSE equities 13%, and cash just over 8% for the year.

Within SA equities, however, there was significant variation. The resources sector experienced yet another down year, contracting 9%. In contrast, the financial and industrial indices each delivered returns of around 20%. The index of small cap JSE-listed shares rose by a whopping 36%. This area of the market proved to be a happy hunting ground for the Foord investment team in 2024. Gold once again proved its resilience in difficult geopolitical circumstances, advancing 27% for the year. Most Foord funds benefited from a healthy exposure to this safe-haven asset.

The Foord global funds again maintained a conservative weight to the frothiest sectors of the market amidst the continued AI exuberance. The Foord Global Equity Fund lagged its US tech-heavy benchmark but still delivered double-digit returns. The Foord Asia ex-Japan Fund, however, outperformed its benchmark by nearly 5% last year. Within Asian markets, therefore, our stock selection was good. The conservative Foord International Fund was positioned for safety. In the event, overcaution and some unexpected detractors meant the fund sustained a small negative return. We are introspective at this outcome.

Bullish markets saw the Foord SA multi-asset funds all producing meaningful inflation-beating returns for the year. This was positive for the long-term savings outcomes of investors. However, the underwhelming performance of the Foord global funds resulted the funds lagging the peer group, which is less important to us than safely compounding inflation-beating returns. The Foord fixed income suite was in-line or ahead of their respective benchmarks for the year.

The Foord Equity Fund spectacularly outperformed its benchmark in 2024. The fund benefitted from its low weighting to the underperforming resources sector, and good stock picking within the lucrative small and mid-cap sectors. The fund was nearly 10% ahead of its benchmark last year. Over three years, the fund has beaten the benchmark by 5% per annum. We thank long-term investors for their patience in our equity strategy.

Looking ahead, early signals suggest that sticky inflation rates could surprise markets. We thus favour attractively priced investments with the ability to keep up with inflation. We continue to have a low weighting to sectors caught up in exuberance. While South African equity valuations are less attractive than they were before the elections, equities outside the US are cheap. There remain some decent-quality opportunities in the Chinese market for patient investors. Inflation-protected bonds and cash are preferred for fixed income exposure. Gold retains its appeal as a solid uncorrelated asset in an uncertain geopolitical environment. And while share market returns should moderate off a high base, we expect to again safely deliver inflation-beating returns for our investors in 2025.

# IT'S STILL A MINEFIELD OUT THERE — HOW TO THRIVE IN 2025

Five of Foord's seasoned portfolio managers each pitched an investment scenario that investors may need to navigate in looking to thrive in 2025. From a 'boring is better' defensive approach to reasons why hospitals could deliver healthy returns despite NHI concerns, the panel — moderated by LINDA EEDES — offered the following insights to help investors remain resilient amidst global uncertainty.

## 1. US DEFENSIVES COULD OUTPERFORM

Brian Arcese suggested a defensive strategy to invest in regulated utilities, particularly in the electricity transmission and distribution sectors. 'In an electrification-of-everything world, many regulated utilities will once again become growth engines — albeit modest, but consistent — which is not priced into some stock valuations.'

Regulated utilities may offer the best stability in 2025 amidst global macroeconomic uncertainty. 'Electricity volumes are expected to rise by 2% annually, reversing decades of stagnation, while costs to consumers are projected to decrease, providing a strong and stable return profile for investors.' The sector's appeal offers 'defensive growth,' ensuring resilience even in challenging macroeconomic conditions. 'In a market that continues to perform well, these utilities can still compound at double-digit rates.'

## 2. CHINA MAY BE THE BEST PERFORMING GLOBAL SHARE MARKET

Ishreth Hassen discussed the attractive potential for investment in the Chinese share market in 2025, given its current economic positioning, stimulus support, and valuation advantages. 'Valuations remain compelling, with Chinese corporates holding cash reserves equivalent to 27% of their total market cap — positioning them to deliver exceptional shareholder return.'

Specific sectors, such as technology and clean energy, present significant opportunities. 'China is positioned as the world's largest manufacturer of clean energy products, with a dominant share in electric vehicles and batteries. With the government now actively supporting shareholder returns through buybacks and dividends, we expect strong outperformance relative to global peers.'

## 3. INFLATION COULD COME ROARING BACK

Rashaad Tayob forecasts a resurgence of inflation, driven by synchronised interest rate cuts, government spending stimulus, and supply-chain constraints. 'While many people think the inflation dragon has been slayed, the forces that drove it in 2021 — such as supply constraints, lower interest rates and government overspending — are reappearing, albeit in different forms.'

Inflation-linked government bonds offer a good hedge against inflation surprises. 'In South Africa, inflation-linked bonds offer yields after inflation of about 5%, while in the US, real yields of about 2% are at their highest in two decades. Even if inflation stays subdued, these investments provide excellent real returns. And if inflation surprises to the upside, the returns could be exceptional.'

## 4. IT'S STILL A MINEFIELD OUT THERE — AVOID THE LANDMINES

According to Wim Murray, to thrive in 2025 investors in South African equities should avoid companies with weak business models. 'A big contribution to portfolio performance is simply missing the landmines.' The risks of capital-intensive businesses include high fixed costs, weak fundamentals, and overstated earnings. 'The pain is ultimately borne by investors when these businesses fail to deliver.'

To thrive in 2025, Murray advocates investing in resilient, cash-generative companies — especially in defensive industries like food retail. 'We prefer South African businesses that don't rely on economic growth to deliver for shareholders. Companies with high free cash flow and strong market positioning can thrive regardless of economic growth.'

## 5. HOSPITALS COULD DELIVER HEALTHY RETURNS DESPITE NHI CONCERNS

Finally, Chief Investment Officer Nick Balkin addressed the uncertainties surrounding South Africa's proposed National Health Insurance (NHI) scheme, explaining why private hospitals could remain a compelling investment in 2025. 'NHI is a complex and costly concept, and significant delays are inevitable. Even conservatively, it will be more than six years before NHI is fully established, and that's assuming that no further legal or logistical challenges arise.'

As such, private hospitals will continue to play a crucial role in healthcare — not only as service providers to government, but also for patients with private medical insurance. 'Netcare, for example, has invested significantly in IT systems and infrastructure, which is driving cost efficiencies and supporting robust earnings growth. Hospitals are therefore well-positioned to deliver healthy returns in 2025.'

An audience poll revealed strong concurrence with the risk of landmines exploding in the South African share market in 2025 — narrowly edging out the scenario of robust Chinese share market growth, which also resonated with the audience.

# WHAT THE SECOND TRUMP PRESIDENCY COULD MEAN FOR MARKETS

Donald Trump's return to the Oval Office in January 2025 has reignited debate about his 'America First' approach and its impact on global markets. Portfolio Manager RASHAAD TAYOB gives his perspective on the Trump Trade.

Even before his formal inauguration, Donald Trump has quickly taken the reins of American policy, due to President Biden's incapacity. This early influence — combined with a popular mandate and Republican control of Congress and the Senate — suggests that Trump could be even more forceful in pursuing his core policy objectives than he was during his first term.

## LOOKING BACK TO LOOKING AHEAD

During his first term, Trump focused on three main areas: immigration, trade, and a fervent 'America First' agenda. He advocated lower interest rates and higher deficits to drive economic growth. Trump's 'MAGAnomics' policy was to effectively run the US economy 'hot.'

MAGAnomics, combined with tax cuts and stimulus spending during COVID, helped produce record low unemployment and robust economic growth — but they also ballooned the deficit and fuelled higher US debt levels. Trump inherits a different economy this time around. The US economy is already running hot under Bidenomics, which spent lavishly on the green energy transition and infrastructure rollout. The US economy is also experiencing higher interest rates, high deficits and sticky inflation.

## TRUMP'S TRADE AGENDA

One of the standout features of Trump's policy platform is his commitment to tariffs as a primary trade tool. Trump views tariffs not only as a means of reducing the US trade deficit, but also as a significant revenue generator. During his first term, he imposed tariffs selectively. He now proposes a broad-based tariff regime of 10% to 20% on many imports, and a staggering 60% on all Chinese goods.

Economic realities suggest that these tariffs invite retaliation. Reciprocal tariffs from trading partners could slow global growth and drive up consumer costs everywhere, not least in the US. In an interconnected global economy, supply chains rarely stop at national borders. Comprehensive tariffs, therefore, risk higher inflation at home, as well as reduced competitiveness for US exporters.

## IMMIGRATION: TIGHTENING THE FLOW

Under President Biden, immigration surged. This helped to moderate wage inflation by expanding the labour force, yet the social and political backlash reached a tipping point. Voters have demanded a return to stricter border controls and Trump is poised to respond by curbing unskilled immigration significantly. In theory, this should add upward pressure on wages, since a smaller labour pool means employers should pay more to attract scarce workers. Rising wages either pressure corporate margins or lead to consumer inflation if businesses pass costs on to consumers. Balancing these inflationary pressures will be a central challenge for Trump's economic team.

## GROWTH VS DEBT

Trump's first term unleashed a juggernaut economy supported by tax cuts and higher spending. This came at the cost of burgeoning budget deficits and debt. Now, with the deficit close to 7% of revenue and government debt far higher than it was before the pandemic, there's limited room for new government stimulus.

Nonetheless, Trump remains eager to deliver robust growth. He will push for additional tax cuts while championing aggressive spending plans. With bond yields already nearing 5% on US Treasury bonds maturing in 10 years, interest costs will continue to rise. Already, interest costs account for 19% of US tax revenues. Ever-higher long-bond yields are a major risk to global investment markets, where credit spreads remain tight and risk premiums surprisingly low.

## AMERICA FIRST — BUT HOW FAR?

Trump's promise to focus on domestic economic prosperity overlaps with his stated aversion to costly foreign wars. He has repeatedly emphasised that international conflicts do not serve American economic interests. He often touts the relative peace during his first term. Yet recent comments about annexing parts of Canada, Greenland, and even the Panama Canal have raised eyebrows. The comments are probably more rhetorical flourish than actual foreign policy but nevertheless could sow market uncertainty and stoke geopolitical tension. Ironically, an 'America First' position that rattles neighbours, allies and trading partners could undermine US interests instead if it triggers retaliatory measures or reduces global cooperation.

## TARIFFS, COST CUTS AND THE BALANCING ACT

With limited fiscal room, Trump is expected to fund new initiatives through tariffs and by cutting what he deems 'government waste'. Reining in bureaucratic inefficiencies may sound appealing, but large-scale cost cutting faces entrenched political interests and is rarely easy to implement. Likewise, tariffs are a blunt instrument. While tariffs will generate revenue and protect certain domestic industries, they also risk reducing growth and adding to consumer prices.

## MARKET IMPLICATIONS AND OUTLOOK

The US stock market reacted positively to Trump's win on optimism for further tax cuts and protection of key industries. However, the market appears to be pricing in a best-case scenario: one in which any trade war remains one sided, with minimal economic fallout. US stocks — especially in the tech sector — trade at historically high valuations. In our view, these valuations are not adequately reflecting the downside risks from higher tariffs, rising bond yields and sticky inflation.

The 2025 Trump Trade has undeniably added a fillip to US markets, already trading at all-time highs on the AI theme and resurgent American exceptionalism (see *Did You Know?*). However, the broader implications could weigh on US and global economic growth if tariff wars escalate, or if bond markets fret more about the federal debt burden and bond yields blow out. There appears to be too little focus on the downside risks of Donald Trump 2.0. We remain wary and cautious on US stock market valuations and sectors that appear to be in bubble territory.

# FOOD PRODUCERS — BACK ON THE MENU

**Historically, the Food Producers sector on the JSE Limited has been unloved, for understandable reasons. However, the sector has heated up and was one of the best performing sectors on the local bourse in 2024. Equity analyst DHERSAN CHETTY revisits the investment case and explains why the Foord Equity Fund was a big investor in food producers.**

The Food Producers sector on the JSE includes well-known companies such as Tiger Brands, AVI, Astral, Oceana, Premier Group, RCL and Rainbow Chickens. This sector has long been out of favour with investors. Limited pricing power, heightened competition from private labels, under-investment in manufacturing facilities, and rising commodity prices have squeezed margins for many players. Weak management in certain quarters has also contributed to these companies' inability to pivot when needed. As a result, investors often overlooked food producers in favour of more attractive growth opportunities elsewhere on the JSE.

However, the tide appears to be turning. In the current environment, specific food producers such as Premier, Rhodes, and, more recently, Tiger Brands, have begun to outperform, thanks to strategic capital investments. By upgrading their facilities, these companies are generating a cost and quality advantage that has made them increasingly competitive. A prime example is Premier's approach to close old, sub-optimal factories in favour of modern 'mega factories' that are highly automated. This new technology has effectively doubled bread production, while requiring one-third of the labour — a move that could double margins in the regions where these facilities operate.

Beyond these capital upgrades, the entire food producer industry is enjoying what we refer to as a 'purple patch' in industry parlance. After a prolonged period of negative volumes — exacerbated by steep food inflation — there are recent early signs of a rebound.

Food inflation has now stabilised. While high food inflation often benefits retailers, it can be detrimental to producers, since passing on price hikes can lead consumers to trade down or reduce purchases. Conversely, stable and more reasonable levels of inflation are far more conducive to profitability, driving higher volumes and enhancing fixed-cost recoveries within factories.

Another tailwind for food producer margins is the recent decline in commodity input prices, such as wheat, maize and rice. Also, lower interest rates, declining fuel prices and improved consumer confidence — partly due to the GNU's policies and Two-Pot withdrawals — are supporting volume growth. As a result, food volumes have surged to some of their highest growth levels in the past decade.

Forward-thinking companies like Premier and Rhodes are leveraging these improving conditions by focusing on profitable volume growth instead of aggressive price discounting. Their investments in high-quality production and advanced technology allow them to offer competitive prices without sacrificing margins. By upgrading logistics systems, strengthening procurement processes, and maintaining a disciplined approach to capital expenditure, they are not only cutting costs but also boosting returns on capital.

This combination of better macroeconomic conditions, prudent capital allocation and tighter cost controls has led to rising earnings, improved free cash flow, and better returns on invested capital. Furthermore, these companies generally carry modest debt levels. Strong balance sheets allow them to deploy surplus cash toward higher dividend payouts and share buybacks — which, in turn, can boost share prices.

The result? Stocks like Premier and Rhodes were among the top performers last year and key contributors to the stellar returns of the Foord Equity Fund. The companies still trade at attractive valuations, especially when weighed against their revitalised fundamentals. For smaller asset managers with the flexibility to take more meaningful positions in these under-the-radar small caps, the once-stale sector remains a compelling opportunity.

# UPDATE ON THE MULTIPLE-COUNCELLOR MANAGER MIX FOR 2025

Foord has successfully operated a multiple-counsellor system for the management of investment portfolios for the past 15 years. Managing Director PAUL CLUER provides an update to investors on changes for 2025.

Giant US fund manager Capital Group pioneered the multiple-counsellor system in the late 1950s. Foord adopted it in 2009 and has successfully used the method for the past 15 years. The multiple-counsellor approach divides investment portfolios among two or more portfolio managers. These managers make independent investment decisions and manage their portions as though they were separate funds.

The system produces an investment result which is a blend of each manager's best efforts. We have found that this contributes to consistency of investment returns and continuity of management. It also manages key-man risk and helps to expose junior fund managers slowly to real assets, with judicious first allocations. Finally, it is a useful tool in managing portfolio manager capacity.

We review the multiple-counsellor portfolio manager mix and weights annually. This year, we have made changes to the mix and weights of the Foord Conservative and Foord Balanced Funds and related pension fund investment strategies in South Africa, and to the Foord International Fund offered out of Luxembourg.

In the South African Foord Conservative and Foord Balanced Funds and related strategies — which include domestic balanced mandates — Wim Murray (40) is included into the manager mix for the first time. Wim has been a multiple-counsellor manager on the Foord Equity Fund and related SA-equity strategies for the past three years. Together with Chief Investment Officer Nick Balkin and portfolio manager Nancy Hossack, he has built an impressive track record, outperforming the benchmark by 5% per annum for the last three years. We are excited for his contribution to the multi-asset strategies for which he has run model portfolios for three years.

Founder Dave Foord (72) retires from these strategies after 41 years of continuous management of pension fund monies. He continues to manage South African low-equity multi-asset portfolios, including the Nedgroup Stable Fund. He remains lead fund manager on the flagship Foord Flexible Fund.

Abroad, Foord International Fund portfolio managers Dave Foord and Brian Arcese are now joined by portfolio manager JC Xue (36). JC has been a multiple-counsellor manager on the Foord Global Equity Fund for the past four years, where he has built an enviable individual track record. He is also one of two managers on the Foord Asia ex-Japan Fund, which has outperformed its benchmark and peer group since its July 2021 launch in difficult Asian markets.

The multiple-counsellor portfolio managers listed here, along with Ishreth Hassen in Singapore and fixed-income specialists Rashaad Tayob and Farzana Bayat, form the core of Foord's investment management team. They are supported by seasoned private client portfolio manager and analyst Mike Townshend and a quality team of research analysts in South Africa and abroad.

FOORD

# DID YOU KNOW? AMERICAN EXCEPTIONALISM

American exceptionalism is the belief that the United States is inherently different from other nations, often seen as having a unique mission to spread democracy and freedom globally. Rooted in the nation's founding principles, it suggests that America's political, economic, and cultural systems are superior or exceptional compared to those of other countries. This concept has shaped American identity and foreign policy, influencing everything from international diplomacy to military interventions and economic decisions.

For investors, the notion of exceptionalism often translates into the belief that the US economy will continue to grow and innovate in ways other countries may not be able to replicate. It is reflected in the global dominance of American companies in technology, finance, and other sectors. American exceptionalism is evident in the use of the US dollar as primary global reserve currency, and reference to US Treasury bonds as the global 'risk free' rate. US markets also traditionally trade at a premium to other markets, reflecting investor confidence.

However, the idea of American exceptionalism can also create risks. Overconfidence in US markets can breed complacency, blinding investors to potential challenges that include overconcentration and geopolitical shifts. By fixating on US markets, investors risk ignoring key inflection points in non-US markets.

| | WORLD | SOUTH AFRICA |
|---|---|---|
| **Equities** | Except for US share markets buoyed by Trump's win, global equities retraced — investors spooked by sticky inflation and the US central bank planning to drastically slow the pace of interest rate cuts in 2025 | The JSE tracked global bourses lower, more so in US dollars on sharp rand depreciation in the last quarter — the resources sector fell nearly 10%, with financial shares also declining |
| **Bonds** | Global developed market bond yields rose (and bond markets fell) — as worries shifted to the burgeoning indebtedness of countries facing pressures to run ever-larger deficits | The All Bond Index was marginally positive on continued optimism for improved fundamentals — SA bonds are looking somewhat expensive, trading at the same low premium to US bonds as in 2012 |
| **Currencies** | The US dollar (and Bitcoin) rallied sharply after Trump's MAGA win suggested imminent tariffs on all US imports — the greenback gained 7.5% against the euro and 9.4% against the yen | After trading stronger since the formation of the GNU earlier in the year, the rand weakened dramatically — the unit traded 8.3% down against the US dollar, despite improving terms of trade |
| **Commodities** | Except for oil, global commodities, including copper, were nearly 10% lower on worries for global growth after Trump's presidential win — gold's 2024 rally was halted on expectations that interest rates would no longer come down as quickly as previously thought | |
| **Economy** | US economic growth quickened to 3.1% (annualised) in Q3 and continues to lead the developed world — the EU is expected to reach just 0.8% for 2024, with Japan slightly higher and China forecast to grow at 4.8% this year | The SA economy grew by just 1% year-on-year to end September, with National Treasury revising down expected 2025 growth to 1.6% — slow growth means SA's debt-to-GDP ratio is now optimistically set to peak at 75.5% |
| **Monetary and fiscal policy** | The European Central Bank and the US Federal Reserve each cut rates by 0.25% for the third time in 2024 — but the Fed warned that the pace of cuts would drastically slow if inflation continues to prove sticky above the 2% target level | SARB's Monetary Policy Committee ruled out a half-percent rate cut, voting unanimously to cut the repo rate by 0.25% — the market is expecting just two further rate cuts in 2025, in line with US Fed cuts |

DISCLOSURE