



meridian
ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

As our table below shows, there has been a striking divergence of performance amongst the different geographical areas, for example between the USA and Europe ex UK, so those portfolios with significant US exposure will have seen a positive return over the quarter. Bond markets have tended easier, whilst, in the foreign exchange market, the US dollar has been the outstanding performer with all the moves mentioned above being a function of the US election results.

The tables below detail relevant movements in markets :

International Equities 30.08.24 - 29.11.24

Total Return Performances (%)				
Country	Local Currency	£	US\$	€
Australia	+5.1	+4.4	+0.9	+5.8
Finland	-5.3	-6.5	-9.6	-5.3
France	-4.7	-6.0	-9.1	-4.7
Germany	+3.7	+2.3	-1.1	+3.7
Hong Kong	+5.0	+8.8	+5.2	+10.3
Italy	-1.2	-2.5	-5.7	-1.2
Japan	-0.5	-0.2	-3.5	+1.1
Netherlands	-9.1	-10.3	-13.3	-9.1
Spain	+2.0	+0.7	-2.7	+2.0
Switzerland	-5.1	-5.5	-8.6	-4.2
UK	+0.7	+0.7	-2.6	+2.1
USA	+7.6	+11.2	+7.6	+12.7
All World Europe ex UK	-3.4	-4.6	-7.8	-3.3
All World Asia Pacific ex Japan	+1.9	+3.8	+0.4	+5.2
All World Asia Pacific	+1.0	+2.4	-1.0	+3.8
All World Latin America	-5.7	-7.0	-10.1	-5.7
All World Emerging Markets	+1.7	+4.1	+0.7	+5.5
All World	+4.8	+7.2	+3.7	+8.6

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : -0.9%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

Currency	30.08.24	29.11.24
Sterling	4.01	4.24
US Dollar	3.90	4.17
Yen	0.88	1.03
Germany (Euro)	2.30	2.09

Sterling's performance during the quarter ending 29.11.24 (%)

Currency	Quarter Ending 29.11.24
US Dollar	-3.0
Canadian Dollar	+0.7
Yen	-0.6
Euro	+1.3
Swiss Franc	+0.6
Australian Dollar	+0.8

Other currency movements during the quarter ending 29.11.24 (%)

Currency	Quarter Ending 29.11.24
US Dollar / Canadian Dollar	+4.1
US Dollar / Yen	+2.5
US Dollar / Euro	+4.5
Swiss Franc / Euro	+0.7
Euro / Yen	-1.9

Significant Commodities (US dollar terms) 30.08.24 - 29.11.24 (%)

Currency	Quarter Ending 29.11.24
Oil	-5.8
Gold	+4.9

MARKETS

Provided investors have significant exposure to the US market, it has been a satisfying quarter for international equity investors. In local currency terms, the FTSE All World Index returned +4.8%, in sterling terms +7.2%, in US dollar terms +3.7% and in euro terms +8.6%. Looking at individual areas in local currency terms, the FTSE USA Index was the outstanding performer returning +7.6%. The FTSE Australia Index showed an above average performance with a return of +5.1%. Notable underperformers were the FTSE All World Latin America Index, -5.7%, and the FTSE All World Europe ex UK Index, -3.4%. In sterling terms, the FTSE USA maintained its strong relative outperformance, returning +11.2%. On the underperforming side remained the FTSE All World Latin America Index, -7.0%, and the FTSE All World Europe ex UK Index, -4.6%. The FTSE Japan Index was also in negative territory, -0.2%, whilst the FTSE UK Index was also an underperformer at +0.7%.

Bond markets generally showed a negative performance. Taking the ten year government bond benchmarks, the gross redemption yield on the US Treasury rose by 27 basis points to 4.17%, on the UK government bond by 23 basis points to 4.24%, on the Japanese Government Bond by 15 basis points to 1.03%. On the other hand, the gross redemption yield on the German Bund fell by 21 basis points to 2.09%.

The feature of the foreign exchange markets was the strength of the US dollar against which sterling fell by 3.0%. Sterling also fell slightly against the yen, by 0.6%, but elsewhere it rose by 1.3% against the euro, by 0.8% against the Australian dollar, by 0.7% against the Canadian dollar and by 0.6% against the Swiss Franc.

In the commodity markets, oil was weak, falling by 5.8%, but gold put in another positive quarter, rising by 4.9%.

ECONOMICS

The forty seventh President of the United States has been elected and re-elected. Those who thought his first period in office was an experiment or an aberration or even an error are forced to re-think as in 2024 there can be very little mystery around the man who will move back into the White House in January. He also appears to have carried forward wider support for his party as shown by the shift in the power balance within Congress, something that is as important as the choice of President. Donald Trump has now been voted in as President twice and this time he attracted 10 million more votes than he did in 2016. The reaction of markets on 6th November as the result became known paints a picture, almost entirely positive, about what the dominant Republican position means. Tesla rose 16.0%, helpful for one of Trump's biggest supporters, Elon Musk, the S&P 500 Index rose 2.5%, the dollar rose by almost 2 cents against the euro but Treasury yields rose slightly, possibly suggesting slightly more risk attached to US government debt.

There are three aspects to Donald Trump on which a view could be expressed. Firstly, him as a person, judged for his past behaviour and discourse, secondly, how markets will perform as a consequence of his policy decisions and, thirdly, other Presidential decisions which are less directly involved with the investment world such as social policy, women's health rights and, to an extent, foreign policy. Our focus remains almost entirely on the second of these three.

There is a myriad of reasons why there has been a marked shift in U.S. politics and why this is important but, as striking as this is, the wider picture is equally comment worthy. In this year that has seen around half of the world's population going to the polls, the ability of ruling parties to maintain their grip on power is something that has been close to unachievable and every governing party facing an election in a developed country in 2024 has suffered a reduction in voter support. The list is long and the outcomes have been catastrophic for certain ruling parties with the Conservatives in United Kingdom losing two thirds of their MPs, the French government falling as a result of the European elections, Japan's Liberal Democratic Party losing its outright majority at the end of October for the first time in fifteen years and even India's Narendra Modi, despite much confidence and strong economic performance, saw his support drop to the point he was forced to enter into a coalition government for the first time.

This invites further consideration as the results suggest that neither policies nor politicking are the cause of the outcomes. The pain of inflation and interest rate rises from 2022 onwards has been a global phenomenon with the effect on the consumer being no different from any other period of high inflation. Inflation is often characterised as a tax as it directly reduces the buying power of the money in the consumer's pocket. It reduces the value of savings and can devalue assets. These election results support the view that voters draw directly from their personal experience over the term of a government when deciding who to vote for. Just as the 1980s were a period of stability when Reagan, Thatcher, Mitterrand and Kohl stayed in power for multiple terms, the post-COVID years are looking like an end point for some political leaders, if not quite for their parties. "Are you better off today than you were four years ago?" That was a question asked by Ronald Reagan on 28th October 1980, a week before the Presidential election that he won by a landslide. If history is on their side then challenger politicians still find this an ace card to play. Donald Trump asked his audience this at a number of rallies building up to 5th November and the electoral statistics of 2024 suggest that the drop in living standards caused by inflation that followed the supply side issues after COVID and the war in Ukraine created ideal conditions for those living on Main St. to think about voting for change, though other considerations applied.

Tariffs are a blunt tool and have a history of doing more damage than good but, at certain times, with a certain style of politician in power, they can fall into fashion. Supporters of Donald Trump have had it explained to them that tariffs offer a simple solution if the problem is a domestic market that is being flooded with cheap foreign goods. Firstly, it's worth pointing out that consumers can currently benefit from additional spending on other goods and services by buying cheaper imports. Large tariffs imposed on, say Chinese goods, will give a price advantage to American producers of similar goods which, presumably, were being offered at a higher price. Those American producers are unlikely to reduce their prices and may be inclined to raise them, given the new competitive advantage they hold and the engineered upturn in demand for their goods due to the lack of competition. The likely outcome is that both the American and Chinese competitor products will cost the US consumer more. Tariff supporters will argue that over time the domestic supply of goods will grow and become more efficient to meet higher demand but the constraints on specialist labour and supply chains may well conspire against a speedy change to the market dynamics. It is sometimes observed that targeted measures against importers can discourage domestic competition and sponsor a reluctance to address any inefficiencies that may have always existed.

An often referenced example of tariffs occurred in 2002 when George W Bush introduced tariffs of between 8% and 30% on imported steel after the government had noted an increase in volumes coming into the US. It covered all imports except those from Canada, Israel, Jordan and Mexico. The European Union immediately retaliated with similar measures and the EU also referred the move to the World Trade Organisation (WTO). Other leading exporters of steel also joined the case. There were two consequences of this. Firstly, the WTO imposed a fine of more than \$2 billion on United States saying the tariffs were a violation of its own WTO commitments and, of greater economic importance, it is widely acknowledged that the move did not have any long term effect on market dynamics and steel consuming businesses were hit with higher input costs in the short term causing significant job losses.

In the scenario where there are two countries in a trade war the range of outcomes is limited to three: both countries benefit from the tensions, one benefits to the detriment of the other or, thirdly, both suffer. Clearly the first of these three is an impossibility because otherwise countries would regularly choose to act with intended hostility. The instigator of tariffs, who believes they act from a position of relative strength, may be inclined to believe that the second of these outcomes is likely but history shows that in the longer term the third outcome is the most likely. At the time of writing Donald Trump has announced punitive tariffs of 25% on all goods and services from Mexico and Canada and has cited illegal immigration and narcotics as the two flows across his borders that damage America domestically, though Canada may feel particularly aggrieved by this. This is not a trade war as such but a negotiating chip. His strategy appears to be to force countries to the table and see what they come back with. The relationship with China is different, though he talks about the inflows of fentanyl, a heroin substitute, from China which contributes to the 108,000 drug overdose (all drug) deaths in America in 2022. This is the thin end of the wedge and Trump's full intentions are, at this time, unclear. Advisers are likely to point out that China has the option of imposing tariffs on US imports, though more goods travel 'westward' than 'eastward'. China may choose to target tariffs on sensitive US exports such as agricultural products or emblematic American goods; it recently imposed temporary measures on imported EU brandies including Hennessy and Remy Martin or another tactic may be to target goods produced in parts of the US associated with high profile Republicans. China has other tools at its disposal such as direct subsidies to its affected companies, targeted stimulus spending and deliberate devaluing of its currency. It also owns around \$770 billion of American debt. Yet another consideration is that all politicians need to get re-elected at some point but Chinese politicians are, possibly, less vulnerable than their American counterparts. American politics is dominated by lobbying and damaged industries will have the ear of policymakers and there may be legal challenges to any measures with a clear example at this point being how any tariffs on Mexico and Canada sit with the United States-Mexico-Canada Agreement (USMCA) which was signed in 2020 and which substituted the earlier North America Free Trade Agreement (NAFTA). China also, presumably, has the option of pivoting away from the US and developing deeper trade ties with the E.U. or its Asian neighbours. The law of comparative advantage would mean that, if the US denies itself cheaper imports, it will burden itself with more expensive domestic production. Unemployment is low by historic standards and there is finite spare capacity for any increased production.

Donald Trump flexes his muscles but is a businessman. He sees his country as a victim of trade and other countries' foreign policy. Returning to an earlier point, we must expect that he is driven by a desire to improve America's lot in absolute terms and not just in relative terms and his measure of success must be economic growth. The direct costs of a tax on products and the bureaucracy around it are, inevitably, borne by the consumers of those goods. This is inflationary which, if excessive, can lower living standards and lead to higher interest rates and higher borrowing costs. Higher interest rates may lead to a strengthening of the currency which runs counter to the intended effect of imposing the tariffs.

America has a Total Public Debt Outstanding figure of \$36 trillion and it is growing at a rate of around \$2 trillion per year, or around 7% of GDP. In 2004 the figure was \$12.3 trillion and that is after allowing for the effect of inflation over the twenty years. The cost of servicing the debt each year is now almost \$1 trillion which takes a 14% bite out of government expenditure, higher than at any time since the Second World War. The new administration is driven by the belief that, if conditions for growth are good enough, debt as a percentage of the size of the economy will drop for the best of reasons. This is not to say that government spending is no longer under pressure but cutting taxes to increase growth has its risks. All of this will need to be done with the consent of the bond markets as most of its participants have the choice of demanding less or none at all. This point covers all aspects of government policy including trade tariffs and yields have risen, though not alarmingly, since the result of the election was known.

In this month's memorandum there has been more focus than usual on the politics of the world. The aim is that this piece should be apolitical or, more accurately, it aims to comment on the interaction of politics and economics without coming down on the side of any political party. This has been a

month where America welcomes a radical but known President who promises disruptive policies and who has wider support through government than in his first term. Also this month, but of less global significance the Japanese and German coalitions have fallen and, closer to home, the first results are coming in on the performance of the UK's new Labour government.

The reaction to all of this change has caused the markets to rise, with the FTSE All-World Total Return Index over the month showing a gain of 3.6% in US dollar terms, 4.8% in sterling and 4.0% in local currencies. Below the turbulence of high office we have had the US company reporting season and, with almost all company results now known, it looks like it has been a good twelve months. Looking at the earnings of the 500 most valuable companies in the United States, Refinitiv calculates a blended growth rate in profit of 8.6% versus the same date a year earlier. Bloomberg calculates a slightly higher figure of 8.9% This is calculated on an equal weighted basis but if results are adjusted to a market capitalisation basis, where a company that is twice as big counts twice as much, Bloomberg calculates an improved figure of 12.1%. The simple explanation is that mega cap companies such as Microsoft and Apple are growing their earnings by more than the relative minnows. Excluding IT companies reduces growth to 6.4% but excluding just energy companies raises the figure to 10.8%.

This paints a positive picture and in a world where reportage dwells on the unseemly and the grotesque it's important to keep some perspective. The economic outlook is moderately good, far from outstanding but far from disastrous, and there is plenty in the in-tray for policymakers to consider. Companies continue to do what they do and a gentle tailwind from those busy politicians can only help in achieving the shared goal of creating employment and wealth. Meridian's typical policies continue to have what some managers would consider to be a high exposure to US companies but we continue to believe that this is the right policy. In the short term, certain sectors of the economy may be affected by political decisions. This underlines the need for diversification across sectors and across geographies and continues to support the argument for investing in market leading well run companies that hold strong positions in their markets and have a track record of adaptability and effective risk management. As sovereign debt dynamics change, particularly with changes to supply, investors may demand higher yields in exchange for lending their money and that will translate into lower bond prices in the market and means that, in our view, clients' best interests are better served elsewhere.

With eleven months behind us and at the risk of tempting fate, it's probably safe to say that 2024 will prove to be a good year for equities. Share prices will always reflect company profits and will be forward-looking. The extent to which future years' profits are written into current prices always varies but the earnings growth that has been seen this year is enough to support the view that companies, in the main, are continuing to be successful and anticipate future growth.

There is a risk that what has been written above presents a Panglossian view and that is not the intention. The policies of the new leaders in 2024/25 will have to be monitored carefully and the risk of an escalation of war, trade or actual, is very apparent at this time. Clients are reminded of the need to ride out any sharp market reactions to new news and remain focused on the medium to long term.

Meridian Asset Management (C.I.) Limited is regulated by the Jersey Financial Services Commission, under the Financial Services (Jersey) Law 1998, to carry on investment business. "Meridian" refers to Meridian Asset Management (C.I.) Limited. This document is provided for interest only. Any opinion expressed in this document is a matter of judgement at the time of writing and may be subject to change without notice. No representation or warranty, express or implied is made nor responsibility of any kind accepted as to the accuracy, completeness or correctness of the information stated herein or that material facts have been omitted. The information contained in this document is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product or service by Meridian. Various products or services referred to in this document are subject to legal and regulatory requirements in applicable jurisdictions. They may not be available in all jurisdictions. Meridian makes no representations about the suitability of the information published in this document for any purpose. It does not constitute investment advice. No information contained or referred to in this document should be construed as such. A professional adviser should be consulted with respect to your particular situation. The value of investments and the income derived from them may fluctuate and you may not receive back the amount originally invested. Past performance is no guarantee of future performance. Currency movements may also affect the value of investments. The investments and services referred to in this document may not be suitable for all investors.