



B Capital SA

Rue Jean-Calvin 14
1204 Geneva
Switzerland

Tel +41 22 317 7823
Fax +41 22 545 7714

Monday, 06 January 2025

B Capital Commentary and Outlook Update 1Q2025 - Growth Amid Discord

"The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

– Sir John Templeton

Breaking the Rules

The global economy has defied expectations. Despite the sharpest and most synchronised interest rate hiking campaign by central banks in decades, growth has endured. Corporate profits in the US recently reached new highs, with profits elsewhere closing in on their former peak.

We expect this "rule-breaking" expansion to continue through 2025 and 2026. Global GDP may rise at 2.9% in both years, compared to 2.6% in 2024. Among advanced economies, the US remains the main engine of growth, with our forecast upgraded to 2.4% for 2025. We are less optimistic for other developed regions, specifically Northern Europe (France, Germany, Benelux, UK) that are suffering from low productivity, moribund industrial sectors, endless red tape and unskilled immigration pressures. A bifurcation of outcomes continues to be evident as expressed through public markets.

Data: The New Global Commodity

We are witnessing a fundamental shift in how value is created in the global economy. Just as oil drove the 20th century's industrial expansion, data is powering the 21st century's digital revolution. This transformation is, in my opinion, being driven by an insatiable appetite for experiences – from travel and social media to gaming and augmented reality.

The modern consumer's desire for personalised experiences creates an ever-expanding need to gather, process, analyse, store and secure data. We believe the entire vertical chain of data processing presents compelling investment opportunities:

continued



- Data Generation: Internet of Things (IoT) devices, sensors, social media platforms
- Processing Infrastructure: Semiconductor manufacturers, AI chip designers, quantum computing
- Analysis Tools: AI models, machine learning platforms, business intelligence software
- Storage & Security: Cloud providers, cybersecurity firms, encryption technologies

Our conviction in this theme is reflected in our private market investments this year, including new positions through our partners in:

- Anthropic (Claude AI): Advanced language models
- Groq: AI acceleration chips
- Cerebras: AI compute systems
- Claroty: IoT device cybersecurity
- ByteDance: Social media and content platforms
- GDSI: Data infrastructure

Trump: A Market Positive Despite the Noise

The incoming Trump administration presents both opportunities and challenges for investors. Whilst his confrontational style and policy uncertainties may create market volatility, we view Trump as ultimately positive for business and markets. His agenda focuses on deregulation and tax cuts, which could boost growth while trying to avoid stronger US demand simply "leaking abroad" through increased imports.

Small business confidence may improve as the prospect of loosening regulation enhances currently depressed sentiment. The capital spending boom Trump aims to encourage could accelerate activity, though risks include potential resource misallocation and economic overheating.

Market	Forward PE	Forecast EPS growth 2025 %	Forecast EPS growth 2026 %
S&P 400 Growth	22.3	10.4	14
S&P 600 Growth	20.9	12.6	16
U.S. Banks	13.3	4.8	12.8
MSCI India	25	16.5	16.1
MSCI China	10.9	9.4	11.9
MSCI Japan	15.2	8.3	9.3
MSCI Brazil	9.3	15.0	10.3
MSCI EM Asia	14.3	14.2	12.9

Figure 1 - Earnings Forecasts 2025 / 2026 for Selected Indexes
Source* - Bloomberg, Factset

continued



China: Finding Value Amid Challenges

After five years of policy decisions that deterred international capital and depressed valuations of many high-quality Chinese companies, we see increasing attractiveness in Chinese markets. Companies like Alibaba, BYD and Tencent now trade at compelling valuations despite maintaining strong market positions and growth potential. We don't deny that it will be a bumpy road on the macro front, but perhaps it always is?

Recent developments support our cautiously optimistic view:

- A massive 10 trillion yuan (£1.1 trillion) plan to address local government debt issues
- Reserve requirement ratio cut of 50 basis points to boost liquidity
- Unprecedented measures to refinance local governments
- Enhanced fiscal and monetary support initiatives

Whilst China's official growth target of "around 5%" for 2024 appears challenging – with the World Bank forecasting 4.8% growth declining to 4.3% in 2025 – we would agree with veteran investors who see long-term potential. As one prominent global investment manager recently noted, "Even though the growth rate they are targeting sounds modest compared to their history, it's still very much above average for the rest of the world." We think Xi Jinping is going to take a Mario Draghi style "whatever it takes" approach to get China on the move again and that means international investor capital will come back in public and private markets over the next five years, and when it does start to return we will be pleased to have been early to the party.

Key challenges include:

- Sluggish consumer spending
- Property market adjustment
- Ageing population demographics
- Potential US trade tensions

However, current valuations appear to more than price in these headwinds, creating opportunities for patient investors.

Investment Implications & Strategy

For 2025, we recommend:

1. **Stay Fully Invested:** Despite elevated volatility, we advise against holding excess cash. Our analysis suggests decent returns over the coming decade across multiple asset classes.

continued



2. **Broaden Portfolio Horizons:** Many investors remain too concentrated in US large-cap equities. While we maintain an overweight position to US blue chip equities within developed markets, we advocate for broader exposure through:

- US small and mid-cap stocks, particularly in technology and healthcare
- Japanese equities (trading at 15.2 times forward earnings)
- Emerging market index funds to capture non-US growth stories, including:
 - * Indian markets (forecast 16.5% earnings growth in 2025)
 - * Brazilian equities (trading at just 9.3 times forward earnings)
- Various credit markets, including investment-grade corporate bonds yielding over 5%

3. **Position for Innovation:** The artificial intelligence revolution continues creating opportunities beyond just the largest tech companies. We see potential in:

- Semiconductor equipment makers (particularly those exposed to advanced packaging)
- Healthcare technology (focusing on AI-enabled diagnostics)
- Industrial automation (reshoring beneficiaries)
- Asian AI beneficiaries like Taiwan and South Korea

Note: This specific investment theme is addressed by our outstanding **Global Tech Leaders** strategy of globally diversified companies that we believe provide the best exposure to the future economy. We have suggested for many years that all core portfolios have this 'big tech' strategy as a satellite portfolio to drive growth over the long-term.

4. **Address Climate Change:** Despite political uncertainty, we see continued investment in:

- Renewable energy infrastructure
- Electric vehicle supply chain
- Carbon capture technologies
- Climate adaptation solutions

Risks to Monitor

Several key risks require attention:

- Potential US-China trade tensions escalation under Trump administration

continued



Geopolitical Outlook: A Path to Peace?

Whilst geopolitical tensions have dominated headlines, we see encouraging signs for 2025. In both Ukraine and the Middle East, we anticipate compromise solutions emerging. Though the path to peace will likely involve continued turbulence, we believe the worst of both conflicts is behind us. This view informs our constructive outlook on risk assets and emerging markets in particular.

The remaining key risks include:

- US fiscal deficit concerns with potential new tax cuts
- Pockets of high valuation, particularly in US large-caps
- Inflation persistence possibilities
- Property sector stress in China
- Cybersecurity threats to data infrastructure

Conclusion

Whilst 2025 presents various challenges, we remain optimistic about growth prospects and investment opportunities. The key is maintaining discipline - staying invested through volatility whilst seeking sensible diversification across regions and asset classes.

The combination of a pro-business US administration, emerging value in Chinese markets, and ongoing technological revolution creates a compelling backdrop for long-term investors willing to look past short-term noise.

The data revolution, in particular, represents a multi-decade opportunity akin to the rise of oil in the previous century. Companies that can effectively harness, process, and secure data will likely emerge as the new global leaders.

Remember, the best investment opportunities often emerge when others are fearful. Current pessimism about China and anxiety about Trump may be creating just such opportunities for patient investors.

I trust that this performance report is clear but should you have any questions please do not hesitate to contact me.

Yours sincerely

Lorne Baring
Managing Director