

Monthly Bulletin January 2025

Most stock markets showed a positive start to the year. Hoofbosch closed the month at a price of €248.66, an increase of 2.42%. Many companies reported earnings, some of which we will discuss in this update. The dollar and the Swiss franc declined slightly against the euro. The oil price eventually remained unchanged around \$73, after a brief spike above \$80. The Dutch long-term interest rate rose to just above 2.7%. The most important events were the inauguration of Donald Trump and the truce between Israel and Gaza. Even before Trump officially took office, it was evident that the CEOs of the well-known tech giants were eager to gain influence. They are trying to establish a good relationship with the American president as quickly as possible, seeking tax cuts, less regulation, more lenient enforcement of antitrust laws and lower energy costs. The era of quiet diplomacy is over. Trump himself commented on this remarkable turnaround: 'In the first term, everyone was fighting me. In this term everybody wants to be my friend.'

Trump and the Fed

Trump's inauguration had immediate economic effects. The Fed decided last month to keep interest rates the same for the time being, citing the great uncertainty about the policy of the US government. Trump's threat to raise import tariffs is a clear example. At the end of January, additional tariffs were announced: 25% for Mexico and Canada (with the exception of Canadian oil, where the additional levy is 10%) and 10% for China. It remains unclear whether tariffs will be extended to more countries (Trump did strongly hint at tariffs for the EU), how high these tariffs might be and how the affected countries would react. In addition, there is a lot of uncertainty about new rules, immigration policy, deportations and fiscal policy. In short, the Fed is like the driver of a car on a winding, unfamiliar road so it decided to wait and see so that the consequences for the economy and inflation can be better estimated.

Trump's tariffs

As we described earlier, Trump has followed through on his earlier threat about additional import duties. While these tariffs may still be part of a broader negotiation

strategy, markets are reacting negatively and the dollar is rising, as was to be expected. If Trump sticks to the tariffs, it will have a slightly negative effect on global economic growth and further reduce the likelihood of further US interest rate cuts. Tax revenues will rise, but so will inflation. As we mentioned in November, we have contacted all companies in our portfolio about this and no major impact is expected. This is because most Hoofbosch companies produce their products in the country (the US) where they are sold.

Euro area

The European Central Bank (ECB) did lower interest rates. The economy is stagnating (the German and French economies contracted in the final quarter of last year) and political uncertainty in those two countries is high. Furthermore, according to the ECB, inflation will fall further in the wake of low growth. The ECB indicated that it is still slowing down the economy with its policy, a clear hint that more interest rate cuts are on the way in the coming months.

DeepSeek

In January, the West and especially the US were surprised when the Chinese startup company DeepSeek launched a chatbot that seemed at least as good as ChatGPT, but was developed at a fraction of the cost. This raised concerns about the US ability to maintain its leadership in artificial intelligence. It reminded us of 1957 and 1961, when the launch of the first spacecraft Sputnik-1 and the first man in space, Yuri Gagarin, caused a shock. At the time, it seemed that the Soviet Union would be the technology winner. The U.S. responded by investing more time, people, and resources in innovation so that it could catch up and stay ahead of the curve. In 1962, Washington set the goal of putting a man on the moon, for which all kinds of new technologies had to be developed. This was achieved in 1969, when Neil Armstrong was the first man to set foot on the moon. Given the reactions in the US after the news about DeepSeek, we expect that we will experience another Sputnik or Gagarin moment, prompting further innovation in the US.

ASML

There is one company that is definitely in a position to make the aforementioned progress possible: ASML from the Netherlands. This company faced significant market setbacks last year. Profit development was disappointing and the share price returned to 2021 levels by the end of 2024. DeepSeek and negative sentiment around Nvidia led to further declines of the share price in mid-January '25. However, we have been following this company for decades and see no fundamental changes to its position. The demand for ASML machines has been huge and will continue to be so. It is a 'quasi monopolist' that makes things that

the whole world can't get enough of. Therefore, we decided to add the stock to our portfolio last month (at an average purchase price of about €680). We believe that Trump's potential actions towards ASML have now been factored into the price. If they don't materialize, it could even have a positive effect. We hope to be able to conclude afterwards that this was an example of 'buy the dip.' Buffet would say: *'when it rains gold, put out the bucket!'* This move aligns with the Hoofbosch philosophy, which prefers gradual evolution over sudden shifts. With Roche, Novo Nordisk, Lonza and Sonova, we already had major AI players in our portfolio. Furthermore, we added Microsoft to our portfolio a year and a half ago and the addition of ASML is, in our opinion, a logical next step within a carefully considered process. We no longer see technology as a separate sector, but as a fundamental part of almost all sectors. Digital infrastructure and chip technology are crucial for economies worldwide, just like transport or energy. Technological progress is a constant in the history of mankind. Sometimes it develops relatively slowly and sometimes there are accelerations. From time to time, however, the process of technological progress proceeds in such a way that we can speak of a special wave, an exceptional period. They are so remarkable that we call them the Industrial Revolutions. We are currently experiencing such a period, in which technologies and applications are being invented that are radically and irreversibly changing societies and economies. Finally, ASML is not your average technology company, but an indispensable supplier to a crucial industry: semiconductors. Without ASML's machines, advanced chips cannot be made, which means that the company plays a key role in the global economy. This makes ASML a long-term investment that fits within the principles of the fund. Hoofbosch continues to focus on companies with sustainable value creation in the long term. Microsoft and ASML meet these criteria because they combine market dominance with strong innovation, stable financial fundamentals (rising dividends), a huge moat, etc.

Procter & Gamble

The new year started off well for the manufacturer of products such as Pampers and Gillette. Procter & Gamble ranked No. 5 in Time magazine's top 100 best companies for future leaders. Recently, it also finished 7th in the Wall Street Journal ranking of best managed companies. In addition, it was (once again) chosen as 'supply chain master' by industry specialist Gartner. In addition, P&G reported revenue growth of 3% compared to the last quarter of 2023 and earnings growth of 2%. For the first time since 2019, this increase was entirely due to volume growth and a better geographical distribution of turnover, without price increases contributing. What was particularly striking was the outlook for the rest of the financial year (July 2024 - June 2025). The company maintains its previous forecasts of 3 to 5% revenue growth and a 5 to 7% increase in profit. This indicates that P&G thinks it will likely be able to raise prices again later this year. However, it is expected to be affected to a limited extent by exchange rate effects. In the past quarter, P&G bought back \$2.5 billion worth of shares, an amount that is expected to increase to \$6 to 7 billion for the financial year.

Microsoft

Microsoft's quarterly results showed a mixed picture. The drivers behind the 12% increase in revenue are cloud services, where revenue even increased by 21%. This was still lower than the market had expected. That's because Microsoft simply can't keep up with the demand. This is expected to remain the case until the end of the year. In addition, revenue from the Productivity and Business Processes segment grew by 11%, driven by the popularity of programs such as Office 365 Commercial and Dynamics. This year \$80 billion will be invested, mainly to build data centers for training AI models and rolling out new applications. Management was full of praise for DeepSeek, the Chinese AI application. Although Microsoft's share price initially reacted negatively, CEO Satya Nadella highlighted the positive side. He pointed out that these kinds of initiatives will lead to the further acceptance and popularity of AI. DeepSeek's R1 program was immediately available at Microsoft's Azure and Github platforms.

Roche

Roche has achieved the top spot in the Future Readiness Index of IMD, the leading Swiss business school. In previous editions, the Basel pharmaceutical giant was also ranked high on the basis of the quality of the research. The reason Roche has surpassed competitors such as Eli Lilly, AstraZeneca and Novartis last year is the effective way in which it has integrated AI into its business operations. This leads to lower costs and an even stronger pipeline of medicines. A good example of this approach is a potential Alzheimer's drug (based on the Roche Brain Shuttle Technology), which is in an advanced testing phase and will probably be on the market in 2028 or 2029. By the way, Novo Nordisk, the other large pharmaceutical company in the Hoofbosch portfolio, ended in 2nd place at IMD. Roche rose 12% last month as a result of better-than-expected results.

Stock performance

After a disappointing 2024, January delivered a positive start. Notable gainers included the previously mentioned Roche (+12%) and Lonza (+9%). Both pharmaceutical companies can achieve significant cost savings in the long run through the application of AI. We previously wrote that Roche expects the development of a new drug to eventually be reduced from 9 years to just 3 months. Another "AI player," hearing aid manufacturer Sonova, closed 8% higher.

The biggest gainer in January was Air Products (+17%), driven by better-than-expected results, analyst buy recommendations, and a dividend increase. This marks the 43rd consecutive year that the company has raised its dividend.

Among the few decliners, we find General Mills (-5%) and "special" Novo Nordisk (-3%). Another "special" and one of our smallest holdings (2% of the portfolio), Galapagos (-16%), announced some major changes. The company is cutting 300 jobs and will split itself into two separate entities. The pipeline (oncology drugs) will remain within Galapagos, backed by a cash position of €500 million. Additionally, a new company will be established with an initial capital of €2.45 billion, aimed at investing in innovative medicines. The stock price decline is surprising, as most analysts, like us, view the split as a positive development.

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