Hoofbosch
BELEGGINGSFONDS

Monthly Bulletin March 2025

March 2025 was disappointing: Most stock markets closed significantly lower. This was caused primarily by technology stocks. The American technology exchange Nasdaq even dropped by more than 8%. Hoofbosch closed the month at a price of €238.46, a decline of 4.81%. Although most stocks in our portfolio performed relatively well, the American dollar and the Swiss franc negatively impacted the March results. The Swiss franc depreciated by 2%, and the U.S. dollar by 4% against the euro. The long-term interest rate in the Netherlands rose sharply at the beginning of the month but then eased slightly at 2.96%.

Concerned? No.

Warren Buffett has previously stated: Investors are generally too focused on the short term. It is essential to invest in companies that will perform best in the long term. Market volatility due to political and economic tensions is nothing new. Such declines in stock prices present opportunities for fund managers to capitalize on. Last month, we added more shares of the Swiss company Sonova to our portfolio and introduced a new Special: Bufab (more on this later).

U.S. Economy

After years of charging ahead, the U.S. economy seems to be decelerating. Economic growth is slowing due to persistently high inflation and low consumer confidence. This presents a challenge for the Federal Reserve: A rate cut would benefit the economy, but high inflation stands in the way. The Fed left interest rates unchanged in March but did little to dispel expectations of future rate cuts later in the year. However, the U.S. economy remains highly resilient, innovative, and strong in the medium- and long-term. Temporary slowdowns in growth are usually short-lived.

ECB

The European Central Bank (ECB) also did not lower interest rates. Just as in the US, inflation in the eurozone remains too high. It persists despite a weak economy due to large budget deficits and prolonged loose monetary policy. ECB President Christine Lagarde tries to appear strict, as seen at a closed ECB conference we attended last month. However, Frankfurt's central bank remains dovish (meaning; soft on inflation). The word remains is in order because analysis of the bank's communications since 2011 using artificial intelligence shows that it rarely takes a hawkish stance (aggressively combating inflation). The result: persistent high inflation.

Financial Stability of the Eurozone

The financial stability of the eurozone appears to be at risk with planned defense expenditures of €800 billion, calls for eurobonds, and the suspension of budgetary rules. As a result, we believe Germany may lose its AAA rating in the long term, endangering the entire eurozone's stability. Whether Trump likes it or not, the U.S. dollar and the Swiss franc will serve as ultimate safe-haven currencies, as no serious alternatives exist.

Swiss Interest Rate

A central bank that does deserve the term hawkish is the Swiss SNB. Moreover, the Swis government does not fuel inflation with excessive spending. Thus, the SNB was able to bring down its interest rate to 0.25% (the lowest in the world), and its president even suggested negative interest rates might return in the future. The SNB can do so because inflation is closer to 0% than 1%, while the economy continues to grow steadily. This environment of low inflation and interest rates strengthens Swiss businesses' competitiveness, keeping Switzerland among the world's most competitive economies.

Swiss Franc

Inflation and currency values are two sides of the same coin: low inflation results in a strong currency, and a strong currency ensures low inflation. These concepts are linked because a strong currency results from disciplined monetary policy and a small government—the key to low inflation. The late Dutch Finance Minister and Central Bank President Jelle Zijlstra argued that the primary cause of inflation is always the government. In practice, it turns out to be difficult for countries to act responsibly in this regard. There is only one country that does: Switzerland. While the EU and U.S. currently experience inflation rates of 2.5% and 3%, respectively, Switzerland's inflation rate is just above 0%.

This strengthens our positive outlook on the Swiss franc, and with nearly 40% of Hoofbosch's investments in Switzerland, we expect to benefit from this positioning.

Bufab

Occasionally, we see investment opportunities outside the SUN countries. When such opportunities arise, we take advantage of our investment strategy to opt for a so-called Special. We select stocks with short-term potential to benefit from favorable market conditions. Last month, we took a position in Swedish company Bufab. Founded in 1977, Bufab specializes in global procurement and distribution of industrial fasteners (e.g., high-quality screws and nuts). Bufab supplies companies in over 30 countries, including ASML, Roche, and Airbus. During our visit to Bufab's Eindhoven facility, we learned that an ASML EUV machine contains more than 150,000 Bufab components. High quality and reliable delivery provide a strong moat. Bufab reminds us of privately held Schutte Bagclosures in the Dutch town of Uden, which is the world's largest manufacturer of bread bag closures. You know it from the clips that close bread bags. These companies operate under the radar, but their products are essential in production processes. We had been monitoring Bufab for some time, and given its attractive valuation and the increased activity in the defense industry, we decided to invest now.

Lindt & Sprüngli

In 2024, Lindt & Sprüngli grew both in value and volume, gaining global market share and positioning itself as one of the fastest-growing chocolate manufacturers. The company achieved revenues of CHF 5.47 billion and an EBIT margin of 16.2%. Growth was seen across all regions, with double-digit increases in many European markets as well as in Brazil, Japan, and China. Sales in Lindt's own stores and e-shops grew by 16.7%. By the end of 2024, Lindt had expanded its retail network to 568 stores (from 523 the previous year). Its dividend increased by more than 7%. For 2025, Lindt expects the trend of premium chocolate consumption to continue, supporting its long-term strategy as the market leader in this segment. Lindt's stock rose by 3% last month.

Lindt's Dubai Bar

Finally, some remarkable news from the UK: British supermarket chain Waitrose limited purchases of Lindt's Dubai-style chocolate bar to two per customer due to overwhelming demand. With limited stock available, Waitrose implemented the measure to allow more customers to enjoy the product. Lindt first launched this limited-edition treat in December 2024, following a viral global trend. The Swiss chocolatier understatedly noted that "this release reflects our goal of pushing boundaries in a market traditionally dominated by classic European flavors." The bar costs £10 (€12) in the UK, compared to chocolate of Dutch supermarket Albert Heijn, which is priced at €1.58 for 145 grams. We eagerly await the next trading update.

Novo Nordisk

After selling a significant portion of our Novo Nordisk position in the second half of last year, we sold the remaining shares last month. One reason for last year's sale was the expiration of several key patents. The history of other large pharmaceutical companies shows that stocks tend to underperform in the years leading up to a blockbuster drug losing patent protection. The obesity drug market is becoming more competitive, with Roche (another Hoofbosch holding) entering. Roche made a major acquisition last month and now has three promising projects in its pipeline, including one with Amilyne. Thus, this investment theme remains represented in our portfolio.

Shell

Last month, Shell held a Capital Markets Day in New York. The most notable announcement was Shell’s plan to structurally repurchase shares for an amount up to 50% of its operational cash flow. Depending on stock prices, this could reduce outstanding shares by up to 40% in the coming years. Investments will be slightly reduced to $20-22 billion annually, and cost savings of $5-7 billion are planned through 2028. CEO Wael Sawan dismissed concerns about excessive buybacks, stating he was comfortable with a smaller group of shareholders sharing in Shell's "future glory," which is expected to come primarily from gas. For now, Hoofbosch is part of that group. Shell expects global gas demand to rise by 60% by 2040, driven by Asian consumption. Despite outperforming most oil and gas stocks in recent years, Shell remains undervalued compared to U.S. peers. We anticipate this valuation gap will narrow. Shell’s stock rose by 6% last month.

Vopak

Vopak's management held a Capital Markets Day in New York, which we followed closely. The underlying idea for presenting this day in the US was the ambition to grow significantly in North America. CEO Dick Richelle and CFO Michiel Gilsing, both of whom we speak with regularly, presented Vopak's long-term vision. Due to the global coverage with more than 70 terminals, the company expects to be able to cope with any trade disruptions, for example due to higher import tariffs. We will of course keep an eye on this. Shareholder returns remain important to management. The dividend will be increased annually and share buybacks will continue this year. This policy, in combination with Vopak’s good prospects, are reasons for us to maintain our position in Vopak. The share price fell by 1% last month.

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