

Monthly Bulletin September 2024

September was yet another turbulent month. The U.S. presidential election is approaching and attention has shifted from Ukraine to the Middle East. The human eye can only focus on one object at a time apparently. Investment fund Hoofbosch closed the reporting month 1.26% lower at €252.26. Dutch long-term interest rates fell to 2.41%, while the exchange rates of both the US dollar and the Swiss franc lost ground against the euro.

Symposium 25 years euro

Save the date: the euro turns 25 next year and we intend to mark this occasion by organizing a symposium on 18 June 2025. One of the speakers will be Jeroen van der Veer, former CEO of Shell. Further updates will follow.

ECB and Fed

The focus that the ECB and the Fed had on fighting inflation has given way to a focus on the economy, even though inflation has not yet been defeated on both sides of the Atlantic. In September, both central banks lowered their interest rates (Fed) or lowered them further (ECB) and it is clear that this is the beginning of a period of declining interest rates. The fact that US 10-year yields have risen since the rate cut, despite growing concerns about economic growth, may indicate that the market is concerned about inflation developments in the coming years.

SNB

September also brought a rate cut by the Swiss central bank (SNB). They don't have to worry about the risk of inflation, which is hovering around 1 percent. It looks like it will remain around that level for the next few years. If there is one central bank that does have the scope to cut interest rates responsibly, it is the SNB. Interest rate cuts are good

news for the Swiss economy and Swiss companies, making their strong competitive position even better.

Draghi (Italian)

Speaking of competitiveness, former ECB President Mario Draghi has published his long-awaited report on how to make the eurozone and EU economies more competitive. The report amounts to an advice to implement across the entire union a large part of the same policy that has put many euro countries in a precarious situation. The obvious approach, to analyze how countries such as the Netherlands or Switzerland have been managing to structurally belong to the most competitive economies in the world for centuries, was apparently too 'out of the box'. In a way this is understandable, because such an analysis would lead to the conclusion that what is needed at EU level is exactly the opposite of what Draghi advises to do. It would mean for example that there could be no joint debts, the well-known Eurobonds. In his report, Draghi states, among other things, that these should be issued structurally. He also argues against repayment of the one-off Eurobonds that were issued to finance the corona recovery fund, meaning they would be rolled over unless the EU gets a new source of revenue. Is Draghi advocating for a European tax? The report can perhaps best be compared to the case of a doctor who tells a patient with all kinds of ailments that this is due to smoking for a very long time, and that the cure is choosing a different brand of cigarettes instead of quitting smoking.

WRR

Draghi's recommendations are potentially a major source of concern for the Netherlands, according to a report by the Dutch Scientific Council for Government Policy that focuses on European ageing and its impact. The gist of it is that the Netherlands, as the only country in the eurozone with (substantial) pension reserves, is well prepared for an ageing population and the associated higher pension costs, but also runs a lot of risk because all other euro countries are not. As a result, our interests diverge widely. For example, there may be a lot of pressure from other euro countries on the ECB to keep interest rates low so that they can continue to borrow cheaply or to reduce that mountain of debt somewhat through higher inflation. The worst enemy of a country with high pension reserves, like the Netherlands, is higher inflation, but it is the best friend of all other euro countries. 'The Netherlands may become isolated within the EU and cannot afford a Union that is economically stagnating or drifting apart', the report concludes. We view this as a disguised way of indicating that if other euro countries do not improve their behaviour, the Netherlands will have to ask itself in the future whether staying in the euro is in the national interest. You read that right.

A good smell

You may not have seen it yet, but you might have smelled it; savvy investors with a nose for opportunities have discovered a trend. More and more people are using eau de toilette or perfume, such as 'La Vie est Belle' by L'Oréal. Fragrances, once a dull subsector of the cosmetics industry, are hugely popular after the lockdowns. Since 2021, this group has grown by double digits, leading to global sales of \$64.5 billion per year, about 40% more than in 2019, according to The Financial Times. Not only are more people spritzing on a nice scent, they are also doing so with greater frequency and increasingly opting for the more expensive variants. This is partly due to the focus on health and sustainability. Consumers choose natural ingredients and are willing to pay for them. Who is the market leader in natural fragrances and flavors? Givaudan, which has already been part of the Hoofbosch portfolio for many years!

Air Products

Based on our conviction that hydrogen will play an important role in the future, we have been investing in Air Products for some time now. The company is one of the largest suppliers of hydrogen in the world and has undertaken several important initiatives for the production of green hydrogen. In addition, Air Products is also a worldwide supplier of industrial gases. Almost everything we use in daily life, from IT equipment to packaged food, has been produced or stored with these types of gases. A subsidiary of Air Products, Air Products San Fu, recently secured an interesting deal in Taiwan. It has signed a 10-year Power Purchase Agreement (PPA) with Tatung Forever Energy. Air Products San Fu has been operating in Taiwan for more than 70 years, supplying gases to the semiconductor industries, among others. The contract, which will take effect in the fourth quarter of 2024, is for the supply of solar energy, contributing to the decarbonization and sustainable development of Taiwan's industrial gases sector. This deal didn't come as a surprise for us. It follows shortly after Air Products announced that it wants to quadruple the use of renewable energy in production by 2030, compared to 2023. This is one of the company's two new sustainability goals and is part of its broader strategy to achieve Net Zero emissions by 2050.

Microsoft

Microsoft has announced that it will increase its quarterly dividend by about 11% and that it will start a new share buyback program. The new dividend of 83 cents means a yield of about 0.77%. A year ago, the company announced that it would increase its payout from 68 cents to 75 cents. Continuous and increasing dividends are, as often argued here, an important criterion for Hoofbosch. In addition to the dividend increase, the Redmond, Washington-based company has said its board has approved a new share buyback

program of up to \$60 billion. The company reported a cash position of \$18.32 billion as of June 30 when its quarterly results released on were presented. Microsoft has invested heavily in artificial intelligence, including more than \$13 billion in funding for OpenAI, the creator of ChatGPT.

Novo Nordisk

Novo Nordisk's share price was under considerable pressure last month due to lower prices for their weight loss drugs. These price reductions can be put into perspective by looking at the steep increase in volumes. Novo and competitor Lilly also have enormous competitive advantages that have recently been somewhat underexposed. Producing these products is extremely difficult and expensive. A factory costs about \$2 billion and requires three to four years of preparation time. Together, Lilly and Novo are spending about \$10 billion on new factories this year. Furthermore, there is only a limited number of manufacturers of the equipment needed for these factories. Even for generic drug makers, it will be difficult to compete when Lilly and Novo's patents expire eventually. Finally, obesity drugs offer protection against a whole range of underlying conditions, such as cardiovascular disease. For example, independent research has recently shown that the Novo drugs can also be used against Alzheimer's. If this is the case, Novo will be the first to tap into an immense market. The company is not commenting for the time being.

Shell

Shell recently announced good news. Together with Dutch grid operator TenneT and the Port of Rotterdam, the company has found a solution for the power supply of the largest electrolyser (a device that uses electricity to split water into hydrogen and oxygen) in Europe, Holland Hydrogen 1. This will enable Shell to temporarily make use of spare capacity on the grid, allowing them to produce hydrogen as early as this autumn. Holland Hydrogen 1, which costs around 1 billion euros, will eventually be able to produce 60,000 kilograms of green hydrogen per day with this electrolyser. The project is the largest of its kind in Europe. The plant, located behind the dunes south of Rotterdam, will support the sustainability of the city's petrochemical industry through a special hydrogen pipeline. The construction of Holland Hydrogen 1 marks an important milestone in making the Dutch energy infrastructure more sustainable. In our view, the project also illustrates the growing role of hydrogen as a clean energy source.

Sonova

Last month, Apple announced that its AirPods Pro 2 can be used as a hearing aid after a software update. The consumer can conduct a hearing test on the iPhone and subsequently configure the earphones in such a way that they provide optimal hearing. The U.S. regulator FDA has approved the software and officially recognized the AirPods Pro 2 as an OTC hearing aid for people with mild to moderate hearing loss. From autumn onwards, this feature will be available in 100 countries. We spoke with Sonova, the market leader in advanced hearing aids and one of our solid stocks. Sonova sees Apple's move as a logical continuation of the fact that AirPods (and earphones from a number of competitors) already offered a setting to reduce ambient noise. The Swiss hearing specialist already launched an OTC hearing aid under the Sennheiser brand last year to address the client segment that is not yet quite ready for the hearing care professional. The company believes that Apple's entry into this market will increase the adoption rate of hearing aids. "Of course, we don't yet know exactly how good the test is and what notifications the user gets but based on the experience with health tests on the Apple Watch, you can expect that in case of any doubt the message: 'we recommend that you contact an audiology professional' will appear." There is a good chance that many users of AirPods will still end up at Sonova (Schoonenberg in the Netherlands). Sonova's share price rose by about 2% last month.

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