

## Monthly Bulletin October 2024

Led by chip stocks, most markets showed a significant decline. Hoofbosch Investment Fund closed the reporting month 2.08% lower. Meanwhile the outcome of the U.S. presidential elections is eagerly awaited. The Dutch long-term interest rate rose to 2.67% (from 2.41% last month). In addition, the U.S. dollar appreciated against the euro, while the Swiss franc remained stable.

### *Nobel Prize*

October is traditionally the month when the Nobel Prize in Economics is announced. This year, the prize was awarded to Daron Acemoglu, Simon Johnson, and James Robinson, three non-Americans working at U.S. universities, highlighting the country's appeal. They received the prize for their research on how a nation's prosperity is influenced by economic and political institutions. Their conclusion is that the structure of a country and its economy is crucial for the development of prosperity. Democracy and economic freedom, along with a dependable rule of law, significantly boost wealth. Switzerland, with its direct democracy, is an excellent example. At Hoofbosch, we applaud the awarding of the Nobel Prize to this trio. Our approach is similar: learning from the past to understand the present and identify future risks, allowing us to avoid these risks in our portfolio. With 227 Nobel Prize winners, the United States is the most successful country. This year they also boasted the highest number of laureates. However, countries like the Netherlands and especially Switzerland score above average per capita. Over the past 116 years, there have been 20 Dutch and 28 Swiss Nobel Prize winners. Since 1901, over 30% of Nobel Prizes have gone to SUN countries.

### *China*

In China, the government has taken action to revive the economy after a period of stagnation. The central bank has lowered various interest rates and reduced the amount banks must hold in reserve, enabling them to issue more loans. Additionally, banks, brokers, and other parties can more easily obtain funds to buy stocks. It has also become easier for local governments to purchase vacant apartments to support the real estate sector.

## *Eurozone*

In the eurozone, the European Central Bank (ECB) is trying to boost the economy. The bank lowered interest rates again in October by 25 basis points. Inflation has further declined in the eurozone, and macroeconomic indicators suggest that economic growth in the monetary union will remain sluggish. The bank strongly hinted at a further rate cut in December.

## *U.S. National Debt*

December will also bring a worrisome milestone. According to the International Monetary Fund, the global national debt will reach the \$100 trillion, mainly due to rising amounts in China and the U.S. The IMF fears that the global economy may face a combination of low growth and high debt, describing it as a 'difficult future.' Rising national debts, combined with higher long-term interest rates, mean that an increasing portion of government spending will go towards interest payments. This could lead to lower economic growth and higher inflation in the long term.

## *Hoofbosch Country Index*

Last month, we completed the update of the Hoofbosch Country Index, a compilation of nine influential rankings from renowned think tanks. Switzerland ranks highest in many areas; it is at the top of the World Intellectual Property Organization's Innovation Index for the fourteenth consecutive year. It is also one of the few countries where young people are happiest according to the UN's Happiness Index. Globally, there is a worrying trend where younger people are less happy than older generations. The U.S. is on a mildly downward trajectory due to deteriorating public finances and reduced social cohesion. In the Netherlands, multiple indices show a decline in knowledge levels, while government regulations are seen as less consistent and effective. However, the Netherlands remains number one in Mercer's Pension Index. With pension savings amounting to 160% of GDP, it has the highest pension reserves in the world, followed by Switzerland and the U.S. with 140% and 130% respectively. This contrasts sharply with countries like Germany and France, where the reserves are just 7% and 8% respectively.

## *Geberit*

Geberit reported a slight revenue increase of 0.4% to CHF 2.40 billion in the first nine months of 2024, despite challenges in the construction sector and negative currency

effects. New products contributed to the revenue growth. Geberit performed better in Eastern Europe and Germany, while sales in Switzerland and Northern Europe lagged. EBITDA rose by 0.7% to CHF 754 million, while the margin improved to 31.4%. The company's ability to charge high prices for its quality products and its frugality enable such margins, allowing for stable or slightly increasing dividends annually, exactly what Hoofbosch is always looking for. With regard to this frugality, we heard a few years ago that the new CEO was at first directed to the factory site when he wanted to park his old BMW in front of the main building. It is also highly unusual for Swiss executives to have their own driver. Geberit closed the reporting month 2% lower.

## *Givaudan*

Givaudan, the fragrance and flavor company, is further expanding its investments in China. The global market leader in perfumes announced the opening of L'Appartement 125 in Shanghai, aimed at fostering collaboration between Givaudan's perfume makers and Chinese brands. The center focuses on the latest trends including premium and personalized perfumes. Givaudan confirmed its mid-term forecast for 2025 after reporting higher sales in the third quarter, exceeding analysts' expectations. The company posted third-quarter revenue of CHF 1.91 billion, a 14% increase compared to the same period last year. Growth was achieved across all product segments, regions, and customer groups. Givaudan reiterated its 2025 forecast with organic sales growth of 4-5% and a free cash flow increase of at least 12%. We consider this an extremely solid company with an impenetrable moat. Despite positive results, the stock closed the month 12% lower.

## *Microsoft*

Microsoft's third-quarter revenue rose by 16% year-over-year, with profits up 11%. This exceeded market expectations, but there were concerns as investments doubled to \$20 billion, nearly matching the profit of \$24.7 billion. New data centers are still needed, and ensuring sufficient electricity for them is a challenge. Microsoft signed a contract with Constellation Energy, which is reopening part of the Three Mile Island nuclear plant in Pennsylvania, with Microsoft taking all the electricity from 2028. Google and Amazon also took steps towards using nuclear energy last month. Microsoft's stock ended the month 3% lower.

## *Nestlé*

Nestlé reported a 2% revenue growth in the third quarter. CFO Anna Manz emphasized that prices are normalizing and that success must come from higher volumes. This is

particularly evident in the US and it could indicate that U.S. consumers are becoming more cautious. In some cases, negotiations with customers led to the temporary absence of some Nestlé products in stores. We see this as part of the price normalization process. New CEO Laurent Freixe, who has been with Nestlé for 38 years, has created an action plan focused on further innovation, which is already being implemented. He focuses on further innovation through Nestlé's renowned R&D capabilities. His mantra is 'less, bigger, and better,' aiming for higher productivity and better resource allocation without compromising profitability. The company lowered its expected revenue growth for 2024 from 3% to 2% and said that earnings per share, excluding currency effects, will be about the same as last year. The stock rose 10% after the results were announced but closed the month 4% lower.

## *PepsiCo*

PepsiCo reported a 0.6% decline in revenue and a 5% drop in earnings per share, largely due to currency effects stemming from a strong dollar. The company also noted that the market for beverages, oatmeal, and snacks is currently challenging. Like Nestlé, PepsiCo saw weaker performance in the U.S. compared to other countries. PepsiCo adjusted its expected revenue growth for 2024 from 4% to 'low single digits' but still expects earnings per share to grow by at least 8%. To achieve this, the company is exercising strict costs controls. The stock closed the month unchanged.

## *ProQR*

The 'special' ProQR is the smallest holding in the Hoofbosch portfolio with a weight of approximately 1%. The biotech company raised \$75 million last month by issuing new shares on the Nasdaq. This followed a doubling of the company's share price in a month, thanks to positive research results from a competitor using the same technology. The new shares were priced at \$3.50. ProQR plans to use the capital raised to fund research programs, including a new drug against a liver disease. Before the issuance, ProQR already had over \$90 million in cash, enough to fund operations until mid 2026. Eli Lilly, one of the world's largest pharmaceutical companies, bought more than 3.5 million new shares, maintaining its 16.4% stake in ProQR. The stock ultimately rose from \$1.82 to \$3.50 last month, a 97% increase.

## *Roche*

Roche reported a 9% increase in revenue compared to the same quarter in 2023. The company reaffirmed its earnings and revenue outlook for 2024. On the last day of the month, Roche announced positive results from a study on a diagnostic test that can

accurately determine if someone has Alzheimer's. This can avoid unnecessary treatments in many cases. Roche stated that currently, 75% of people with Alzheimer's symptoms live without a clear diagnosis. Although the results are very encouraging, it is not yet clear when the test will be available on the market. The stock fell by 1%.

## Schindler

Schindler reported good results. Although revenue showed a slight decline in the first nine months, net profit rose by over 8% compared to the third quarter of 2023, reaching CHF 748 million. The number of new orders also increased. A recent study by research firm FACT.MR shows that the market for contactless elevators, which can be operated with smartphones, is growing significantly. This market has gained momentum, especially after the pandemic. Schindler sells several systems in this segment, and the forecast is that this market will double in the next 10 years. Schindler also announced a share buyback program worth up to CHF 500 million, starting in November 2024 and ending in November 2026. Additionally, the company was recognized by Newsweek as one of the world's most reliable companies and was listed among TIME Magazine's top 1,000 companies. For 2024, Schindler expects modest revenue growth and an EBIT margin of 11%, including restructuring costs of up to CHF 80 million. The stock rose by 1% last month and is one of the best performers in our portfolio with a 23% gain year to date.

## Shell

Shell made a profit of \$6 billion in the third quarter despite lower oil prices and weaker refining margins. This was better than the market had expected. Only the green energy division suffered a loss, but the company had already hinted at this during a recent trading update. Shell will buy back at least \$3 billion worth of its own shares for the twelfth consecutive quarter. The stock closed up 4%.

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