

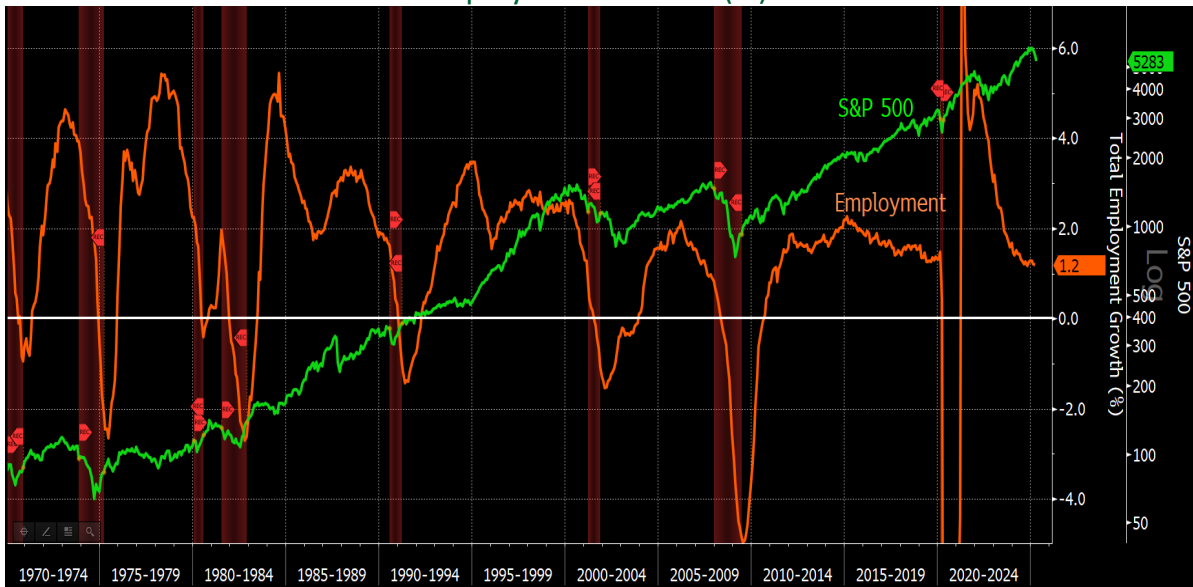
"Strive not to be a success, but rather to be of value."

Albert Einstein

1. US EMPLOYMENT

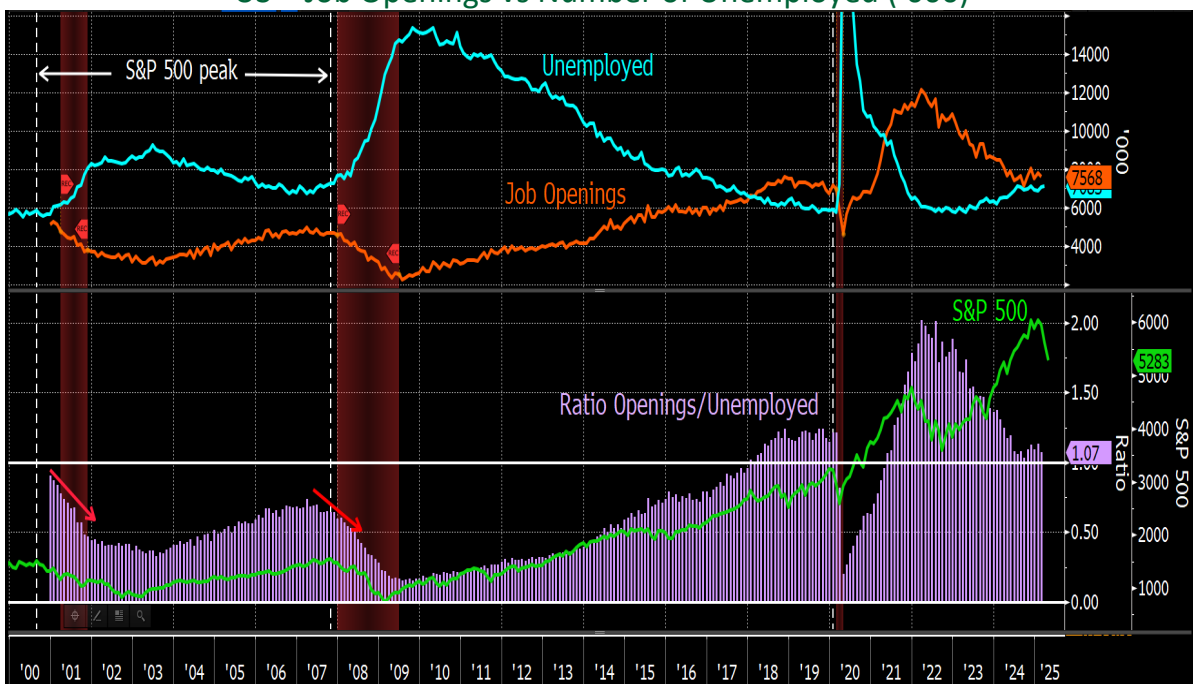
With all the uncertainty in the world capital markets, the most important support currently is US employment. March delivered a strong new employment figure of 228,000, better than consensus expectations.

US – Total Employment Growth (%) vs S&P 500



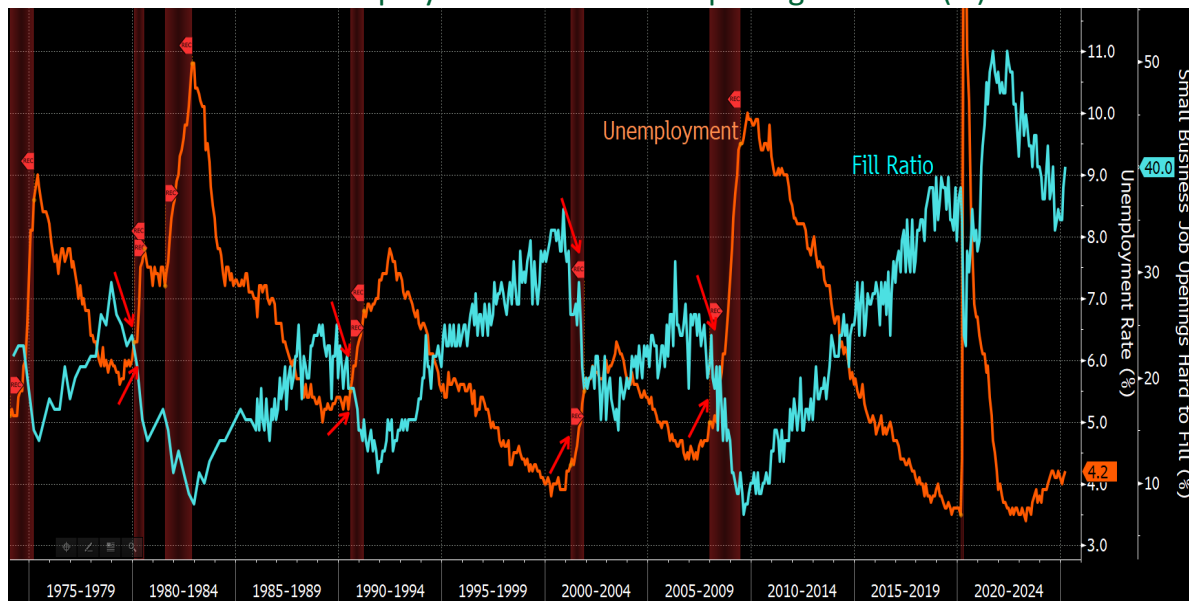
The current total workforce growth in the above chart appears to be stable at +1.2%. On this basis alone, we do not yet see a particular threat to the US economy.

US – Job Openings vs Number of Unemployed ('000)



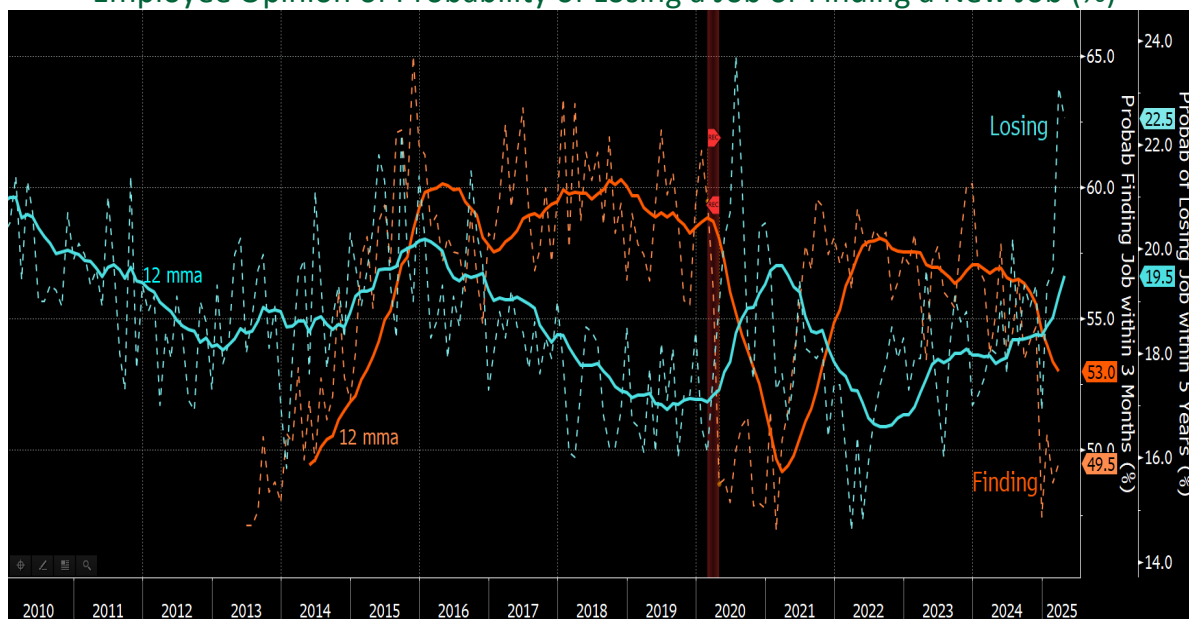
Considering the preceding chart, the number of unemployed is relatively stable (the blue line), as is the number of new job openings (the orange line). Importantly, the number of job openings continues exceeding the number of unemployed workers (the ratio reflected in the purple bars). This is a supporting factor.

US – Unemployment Rate vs Job Opening Fill Ratio (%)



Whilst the unemployment rate is increasing, it currently remains at a low 4.2% level (the orange line). The blue line reflects the Fill Ratio (how hard small businesses find it to fill job openings). Whilst it has eased from the extreme levels following the Pandemic, it remains at an elevated level.

Employee Opinion of Probability of Losing a Job or Finding a New Job (%)



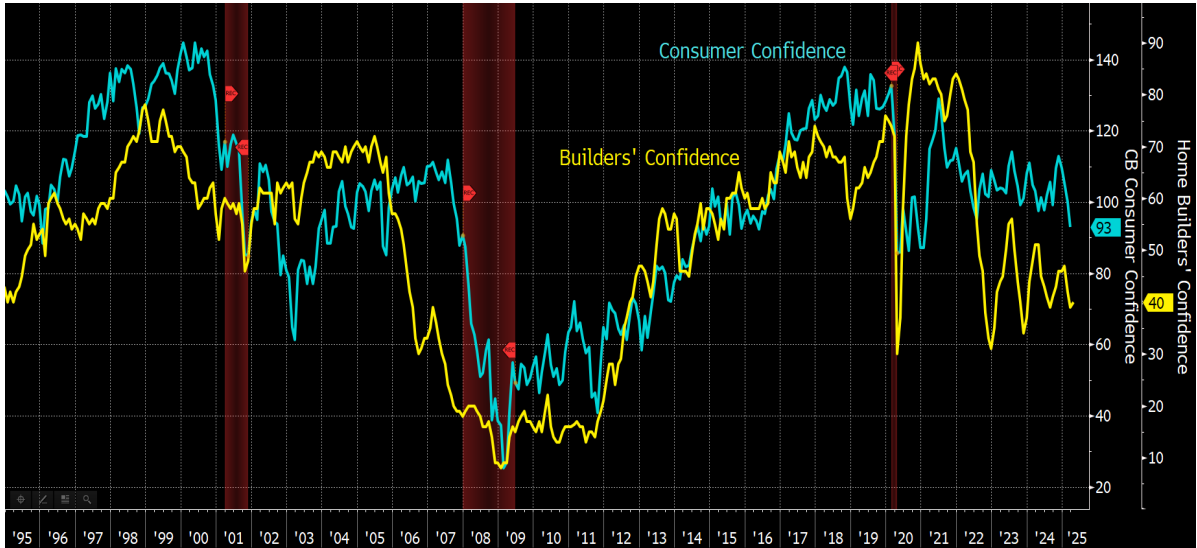
Contrary to the preceding constructive employment data, the probability employees perceive of losing their jobs (the blue line) is at an elevated level. Along with this, their perception of finding a new job (the orange line), is dropping in tandem. It seems that employee confidence in their job security is deteriorating.

2. CONFIDENCE

Investor confidence has suffered severely from the US tariff announcements, fueling capital market volatility and general uncertainty. We consider the different confidence indices affecting capital markets.

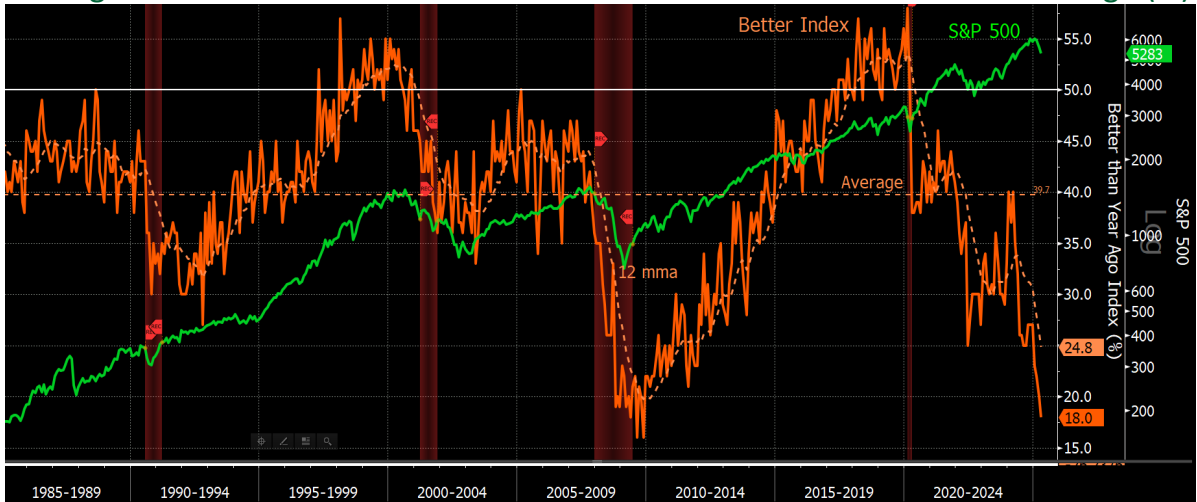


US – Conference Board Consumer Confidence and Builders' Confidence Indices



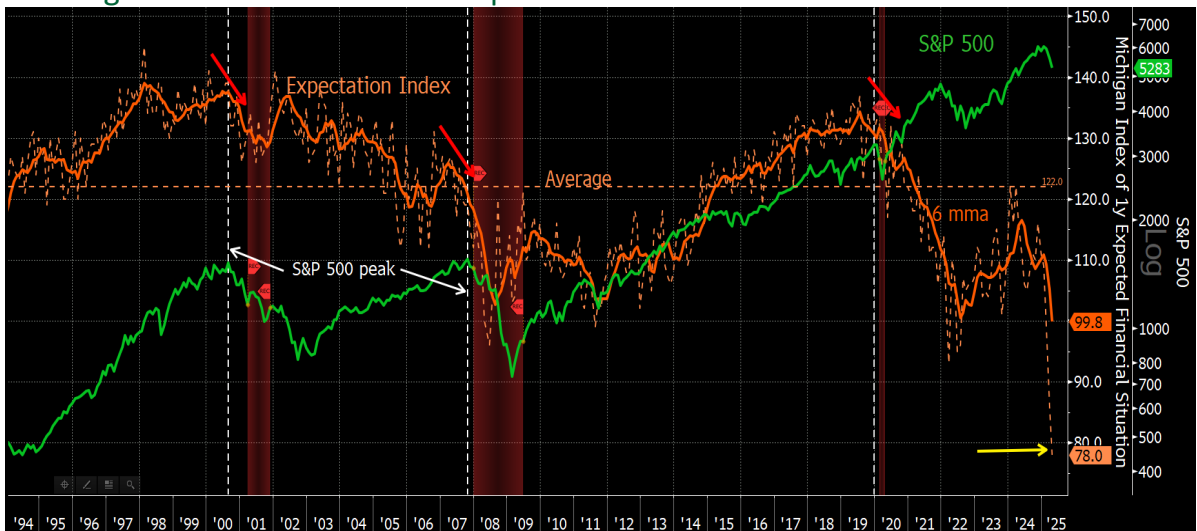
The above Consumer Confidence Index (the blue line) is drifting, currently at its long-term average level. The Builders' Confidence Index dropped sharply in 2022 with high mortgage rates following the extreme Federal Reserve tightening but seems relatively stable.

Michigan Index of Consumers' Current Financial Position Better Than a Year Ago (%)



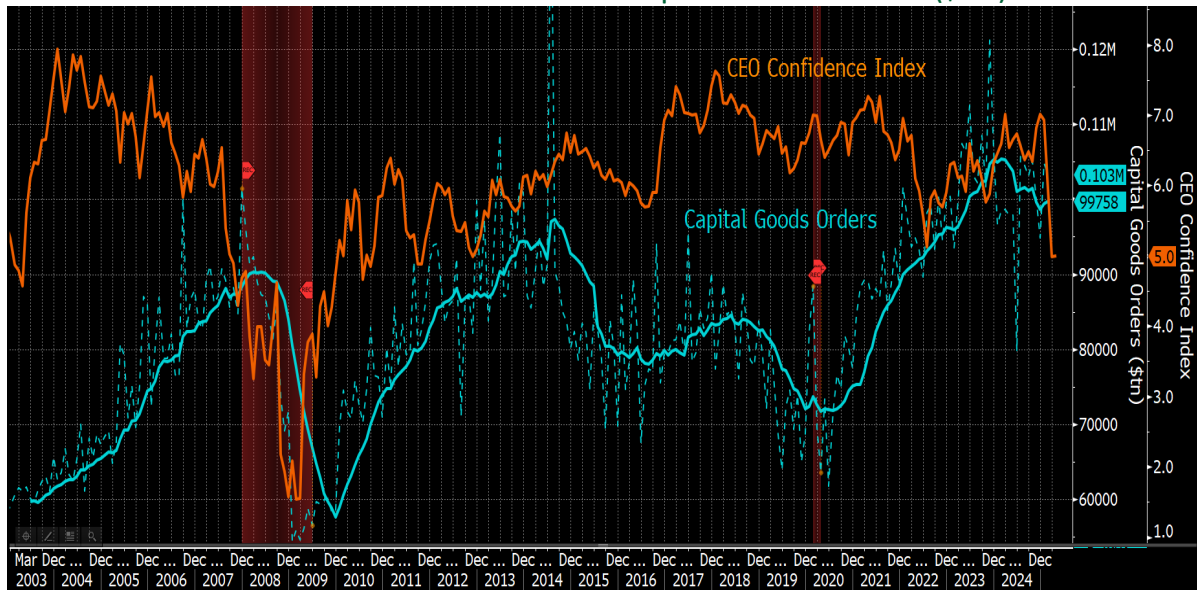
According to the above index, almost a record low number (18%) of US consumers believe their financial positions are better than a year ago. It is also striking that such pessimism historically offered good stock market buying opportunities.

Michigan Index of Consumers' Expectations of Financial Positions One Year Ahead



According to the preceding University of Michigan chart (the orange line), consumers' expectations of their financial positions a year ahead have recently dropped sharply to a record low (the orange line).

US – CEO Confidence Index vs Capital Goods Orders (\$bn)



The CEO Confidence Index in the above chart recently dropped sharply (the orange line) to a fifteen-year low, with Capital Goods Orders having been drifting for about a year already (the blue line).

Overall confidence currently is fragile, and the current strong US consumption and retail sales of +5% for both may become at risk.

3. DOLLAR

Investors take cognizance of the recent weakness in the Dollar:

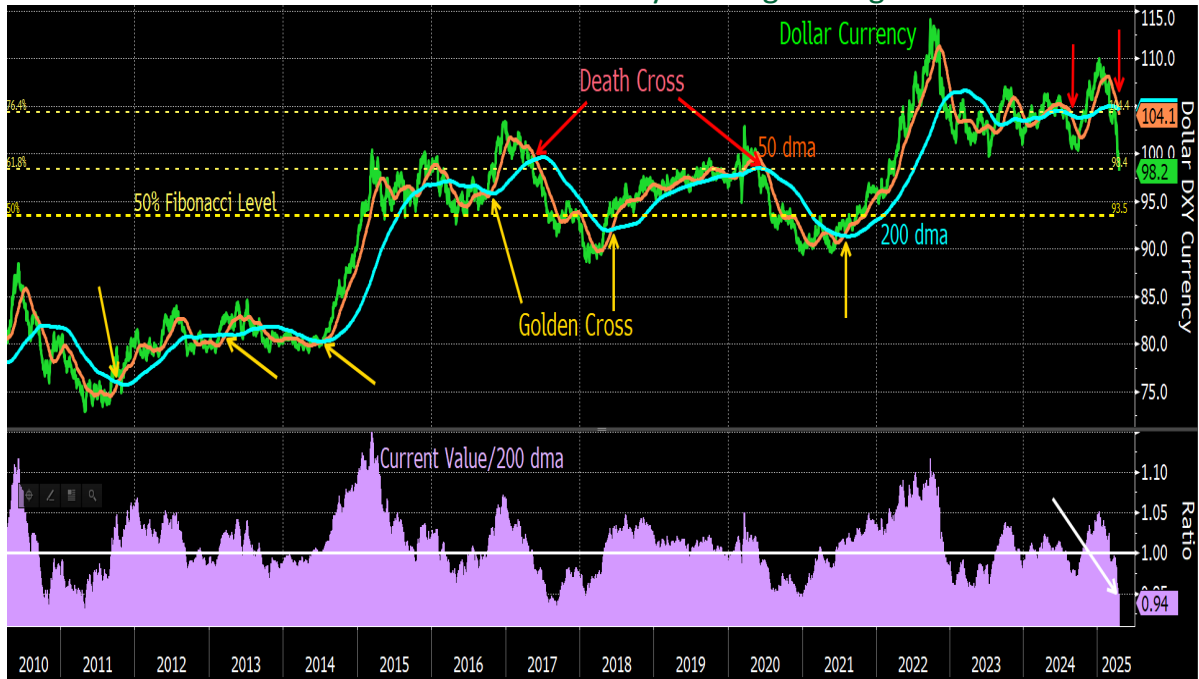
US – Dollar vs 10-Year Treasury Yield (%)



Historically higher income in the US Bond market attracted investors into Treasuries, with, other things being equal, a corresponding positive effect on the Dollar currency, with the reverse also true. This positive relationship has recently broken down, with higher interest rates unable to prevent capital outflows from the US. The Dollar has therefore weakened materially (the yellow line). The current record negative trade balance of -\$123bn further boosts the currency's depreciation.



Dollar vs 50- and 200-Day Moving Average



Technically the Dollar is in a weak position – the *Death Cross* occurred last week (the red arrow), with the gap between the current value and its 200-day average at a record low level (the white arrow). It has dropped marginally under its second Fibonacci retracement support level, following which, should it weaken further, potential structural weakness may become a debate. Investors must take cognizance of this capital market risk.

4. LUXURY & DISCRETIONARY INDUSTRY

Logically the luxury industry suffers from a weakening economic outlook and investor sentiment:

Luxury Relative Performance



The yellow line reflects the relative performance between Walmart and the Global Luxury Index. Walmart's relative performance is currently at an elevated level, as historically happened during economic recessions as investors seek safety in staples. The blue line reflects the relative performance between LVMH and the World Index. Whilst over time LVMH delivered an outstanding relative performance, this turned the other way at the time that Walmart started outperforming the sector. LVMH is currently not far from an almost decade long low earnings valuation.



Dior Value vs LVMH



The Arnaud Family controls LVMH’s through their 98% stake in Dior, which itself owns 41% of LVMH. It is therefore clear how to calculate Dior’s value on the base of LVMH’s market price. The green line reflects that value relative to its own price, currently at a 26% premium. The orange line reflects the relative performance of Dior vs LVMH’s shares. Apart from the distorted values during the Pandemic, Dior is currently at a record discount to LVMH.

As indicated with Walmart, the market currently materially favours the Staples sector. The following chart indicates the extent to which this sentiment shift has moved:

S&P Discretionary vs Staples & S&P 500 Performance

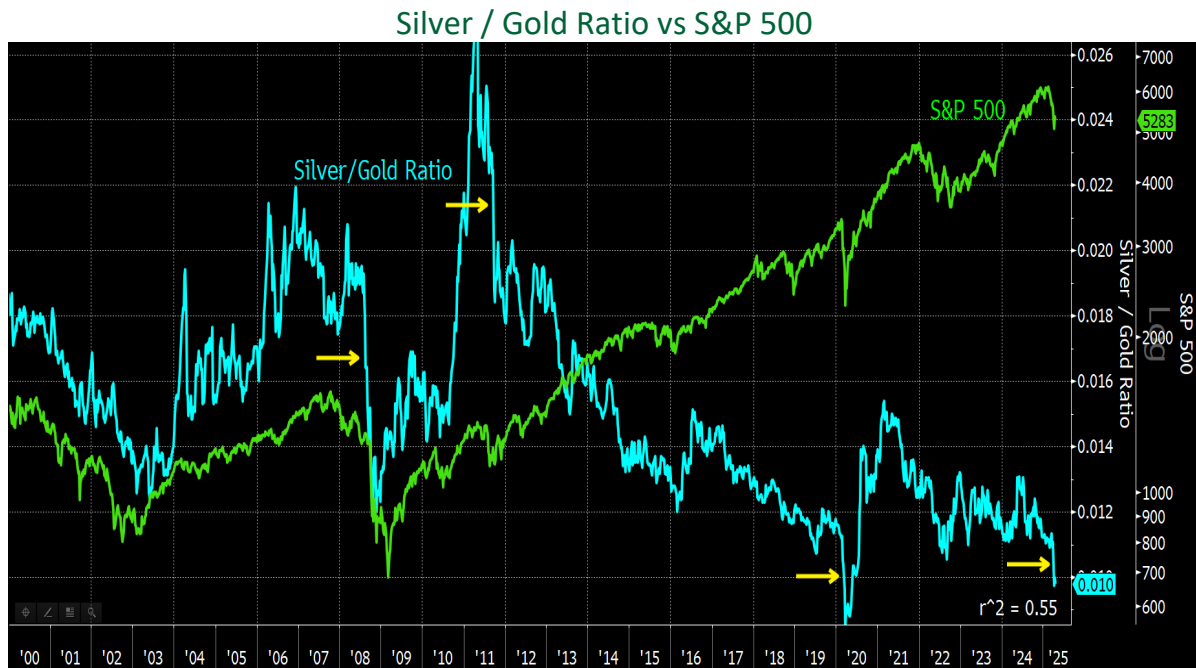


The orange line in the top chart reflects the Discretionary sector’s performance relative to Staples. The orange line in the bottom chart reflects that chart’s relative strength. This latter chart indicates that, against Staples, it is now severely oversold. Apart from indicating a technical buying opportunity for Discretionary against Staples, its current level also historically indicated a buying opportunity for S&P 500 (the green line). This usually happens at times of peak uncertainty as an early indicator.



5. GOLD

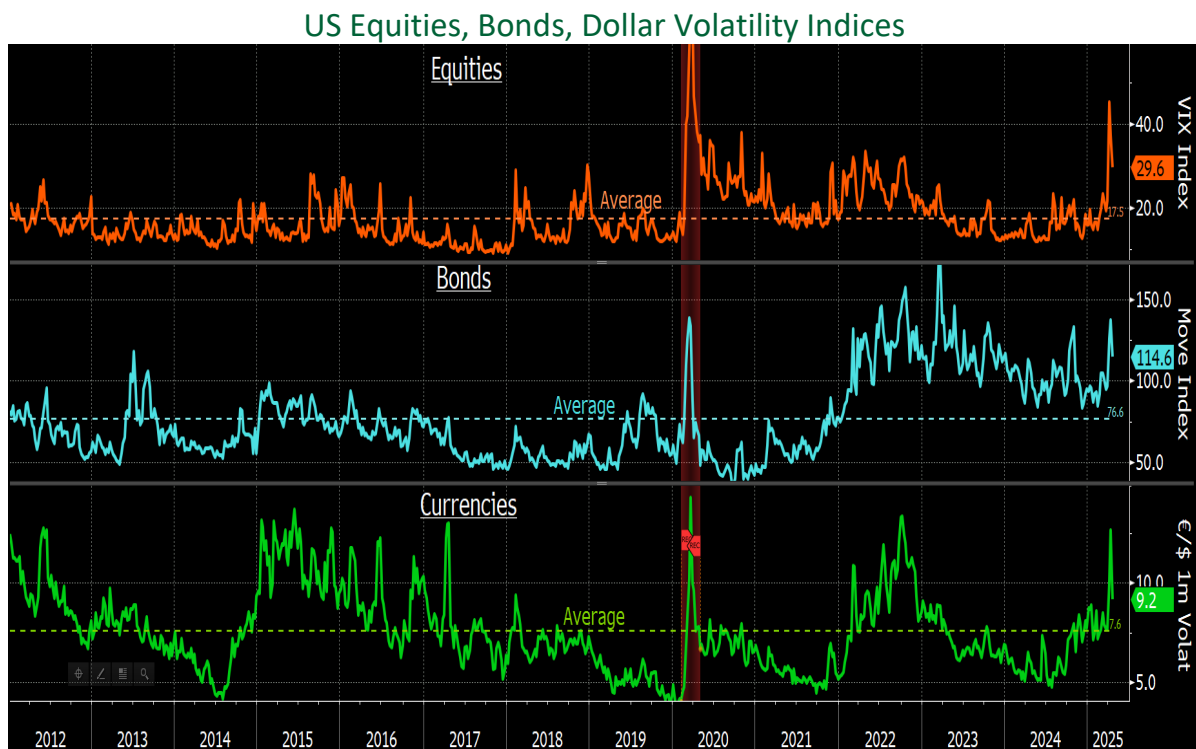
It is worth equity investors taking notice when Gold performs particularly well:



The blue line reflects the Silver Price relative to Gold's. Because of the former's industrial use (along with its storage of value), the ratio historically correlated well with share prices. This relationship broke down in recent years. Nevertheless, it still has value when it drops sharply (when Gold outperforms), as indicated with the yellow arrows. Whilst the current drop has been relatively mild so far considering earlier ones, those periods historically indicated good share buying opportunities.

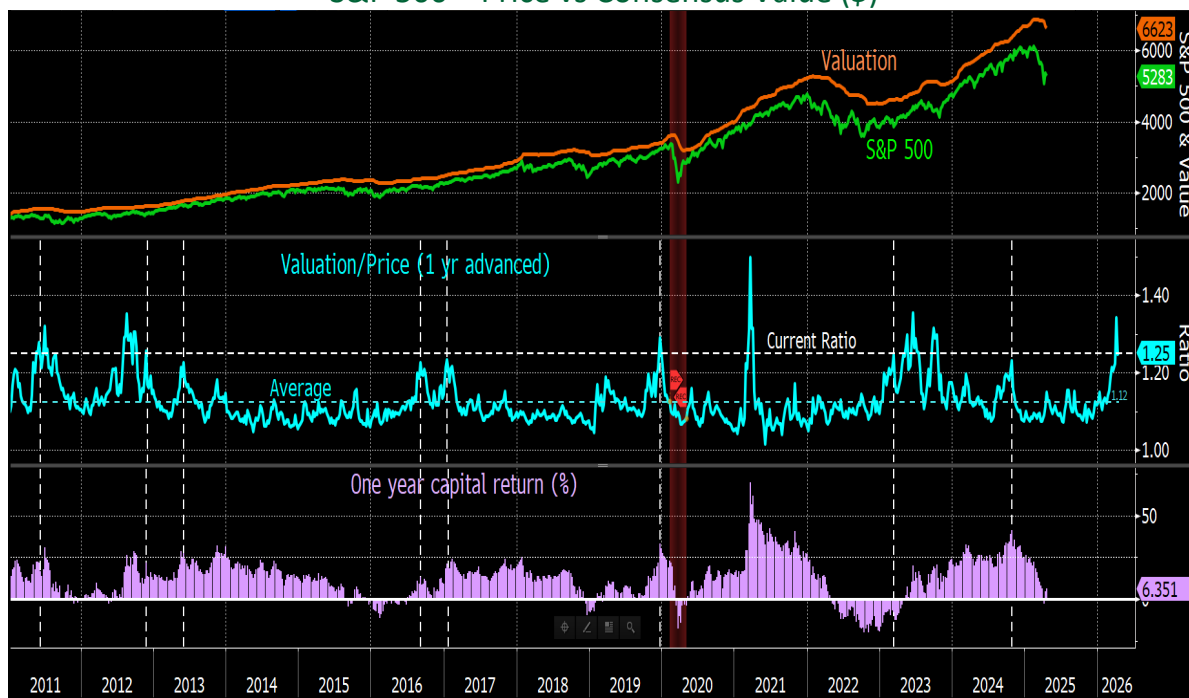
6. VOLATILITY

The following chart reflects the main volatility indices:



With all the uncertainties following *Liberation Day* investors have faced extreme volatility in all of Equities, Bonds and Currencies. As the above chart indicates, the respective volatility indices are starting to recede as the US tariff issues are moving into the negotiating phase. This may prompt astute investors to consider opportunities created from 2 April. In this context, the following S&P 500 valuation chart is of value:

S&P 500 – Price vs Consensus Value (\$)

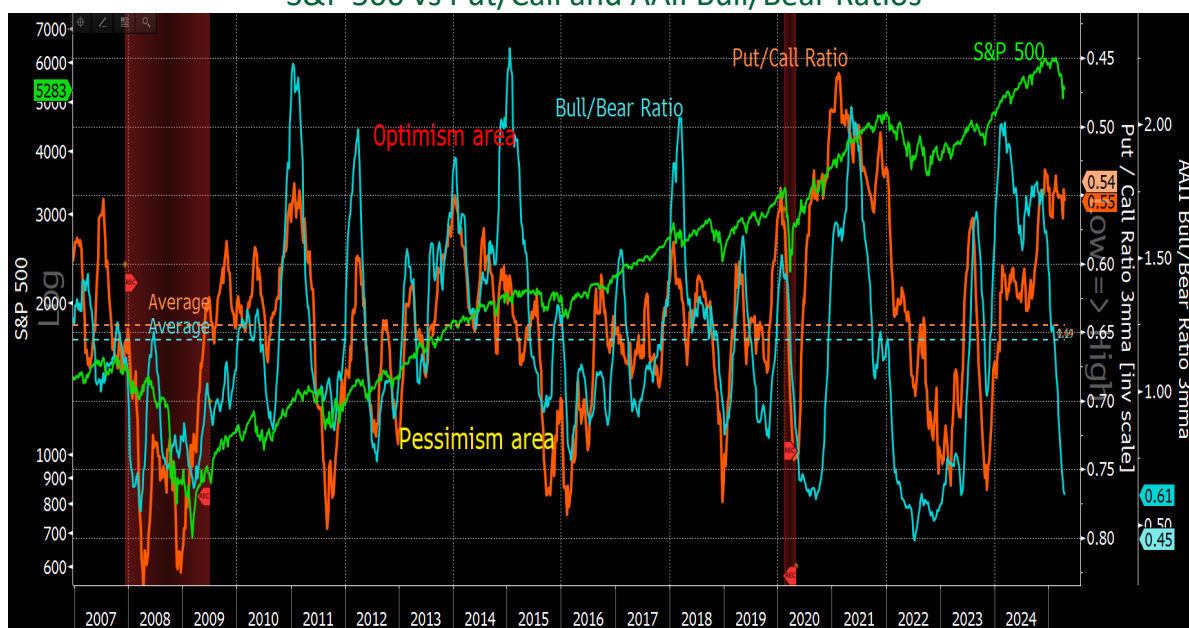


The consensus valuation has been adjusted downwards (the orange line). The blue line reflects the discrepancy between the valuation and the price, currently with a 25% discrepancy. This line is shifted 12 months forward to illustrate the capital return a year later (the purple bars). The white broken lines reflect the historic returns at the current 25% discrepancy. On average it delivered attractive returns at the current valuation discrepancy.

7. TECHNICAL PICTURE

The following chart reflects the individual and institutional views of the stock market:

S&P 500 vs Put/Call and AII Bull/Bear Ratios



As reflected in the preceding chart, the individual market is currently very negative (the blue line). Historically this indicated a good buying opportunity (consider the S&P 500 levels). Against this, the institutional market is constructive (the orange line) following a recent rebound in the Put/Call ratio. The Short Interest Ratio is at an historic high (not shown), most probably from high hedge fund activity. On balance, this combination seems to offer cautious buying opportunities.

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