TRUE

INSIGHT

True Potential Portfolios | Issue 37 | Winter 2024

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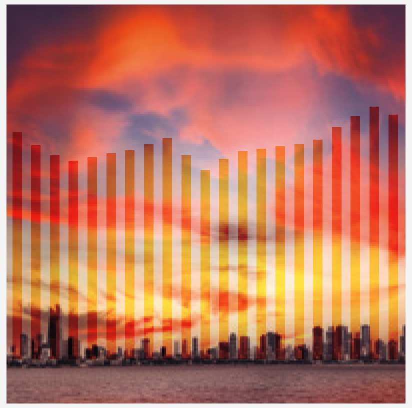

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Mark Henderson
Former Chief Executive
True Potential Investments

This year will mark the 10th anniversary of True Potential Portfolios and our firm aim is to continue generating positive returns for our clients. The principles of advanced diversification, spreading money across global markets has been rewarded. The table below shows how the portfolios have performed up to the end of 2024.

In this issue we will look at our views on world markets and if we are to maintain our exposure to the dominant US as the country enters into a Trump administration for the second time. The unpredictable nature of the President means that past performance is certainly no guarantee that the next four years will be the same as 2017 – 2021.

Portfolios	Annualised return (Oct 15 - Dec 24)
Defensive	+2.49%
Cautious	+3.93%
Cautious +	+4.15%
Cautious Income	+4.78%
Balanced	+5.34%
Balanced +	+5.89%
Balanced Income	+5.27%
Capital Growth	+7.01%
Capital Growth +	+7.17%
Aggressive	+8.21%

Source: True Potential Investments, data as of 31 December 2024.

There are, of course, other opportunities available to us as multi asset managers. Emerging Markets are always interesting and under consideration particularly for investors with longer time horizons in mind. At one time China was making all the headlines as the country grew at an astonishing pace. But Emerging Market investment is not a one-horse race and India is coming up on the ropes as you will see on page 16.

Each economy is a complex mix of components, under the surface there are a myriad of companies employing people, paying taxes and trading with other nations. The simplest categorisation is service v manufacturing. The UK, for example, is a service led economy, China on the other hand dominates manufacturing. The Industrial Revolution started in the UK in the eighteenth century continues now away from our shores. We take a look back at different industries in 2024 and why it is important to keep investment exposures under constant review.

Our last article is a timely reminder to those of you with 'broad shoulders' as the Chancellor seeks to balance the books by increasing taxes on capital. Shelter as much as you can is the message as the last few years have seen record levels of taxation inflicted on all of us.

I hope you enjoy the first True Insight of 2025, the next time you read View from the Riverside it will have been written by Jeff Casson as I hand over this pleasurable role and become a reader rather than a writer.

1.3%

The True Potential Growth Portfolio was up 1.3% in the fourth quarter of 2024.

6.3%

The True Potential Cautious Portfolio has grown by 6.3% in the last 12 months.

107.6%

The True Potential Aggressive Portfolio has grown by 107.6% since launch (October 2015).

Figures shown after Ongoing Charges Figure (OCF) has been deducted.

Performance update.

Jeff Casson
Chief Executive
True Potential Investments

The final quarter of 2024 provided investors with mixed returns across different asset classes. 7 of 10 True Potential Portfolios generated positive returns in Q4, however, over the whole year all Portfolios remained firmly in positive territory. In Q4 the strongest performance came from the Aggressive Portfolio returning +2.4%. Performance has been driven by an overweight to equities and diversification across different currencies, particularly a higher weight to the US Dollar.

61.8%

The True Potential Balanced Portfolio has grown by 61.8% since launch (October 2015).

> "Over the whole year all portfolios remained firmly in positive territory."

Portfolios	3 months	1 year	Since launch (1 Oct 2015)
Defensive	-0.26%	+4.55%	**+25.53%**
Cautious	-0.11%	+6.37%	**+42.90%**
Cautious +	+0.30%	+7.38%	**+45.73%**
Cautious Income	-0.47%	+8.04%	**+54.04%**
Balanced	+0.32%	+8.36%	**+61.88%**
Balanced +	+0.86%	+9.22%	**+69.85%**
Balanced Income	+0.00%	+8.60%	**+60.93%**
Growth	+1.31%	+10.56%	**+87.32%**
Growth +	+1.90%	+12.15%	**+89.81%**
Aggressive	+2.41%	+13.31%	**+107.60%**

Source: True Potential Investments, data as of 31 December 2024.

The True Potential SEI Aggressive Fund grew +3.5% in the fourth quarter of 2024, ranking it the top performing True Potential Fund. The fund benefitted from having the largest equity exposure of all True Potential managers, and the largest exposure to the US Dollar, coupled with excellent manager selection to navigate through a rapidly evolving environment. The Fund is currently a 25% allocation of the Aggressive Portfolios and 16.5% of the Growth + Portfolio. The True Potential Aggressive Portfolio has generated a total return of +107.6% since its launch in October 2015.

Full five year past performance data for the True Potential Portfolios can be found on page 22. Figures shown after Ongoing Charges Figure (OCF) has been deducted.

Scan and log in to your online account to view your investments.

With investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest. Past performance is not a guide to future performance.

Review of the markets: Q4 2024

It is perhaps fitting that markets were volatile in the quarter that Donald Trump was re-elected US President. The US equity market benefitted directly from the promise of a cut in the corporate tax rate from the President elect, as well as lighter touch regulation and expectations of a generally pro-business approach. Behind the headline gain of just over 9.4% for the S&P 500 in Pound Sterling terms, there was a wide disparity of returns. Outcomes varied from over 14% for US consumer discretionary companies and +13% for the Nasdaq, to -9.7% from US Healthcare and -7% for US Real Estate names. Over the quarter, the MSCI World Equity index returned 6.6%.

The likelihood of tariffs imposed by the US on the rest of the world contributed to relatively poor performance for non-US equity indices. The Eurostoxx600 index fell by 1.7% during the quarter but outcomes at the country level varied widely, with the German DAX gaining almost 3% and the French CAC falling by the same amount. In Asia, waning optimism around the prospects of game-changing Chinese stimulus led the CSI 300 index to fall by just under 8% over the quarter, albeit this followed a 16% gain in the previous quarter. The Japanese market benefitted from a weaker yen and strong underlying earnings growth and rose by just over 5% during Q4.

Sovereign Bonds had a rocky quarter as expectations for interest rate cuts through 2025 continued to be scaled back. US Treasuries were particularly weak, with the 10-year yield rising by almost 0.8% points over the quarter. The Republicans' promise of expansionary fiscal policy into a resilient economy and a tight labour market prompted bond investor concerns about inflation and, as a result, reduced the prospect of interest rate cuts from the Federal Reserve. In the UK, Chancellor Reeves' budget was treated with scepticism by the bond market and the likelihood of a sharp increase in gilt issuance drove 10-year yields higher by more than 0.6% points during the quarter. In Europe, the French Prime Minister's resignation, following his inability to pass a restrictive budget, drove the yield on French government bonds higher relative to German bond yields but overall, European bonds were relatively well behaved. Corporate Bonds remained broadly immune to volatility in Sovereign Bonds.

In currency markets, the US election result provided a significant boost to the dollar. An 8% appreciation of the trade-weighted dollar index was comprised of significant moves against all the United States' major trading partners. After appreciating rapidly in the first three quarters of 2024, gold moved sideways in Q4, perhaps due to the prospect of lighter touch regulation of cryptocurrencies making them an increasingly viable alternative.

2024 was another impressive year for equities with the Global MSCI index up 21.5%, with economic resilience and earnings strength more than offsetting the headwind from reduced interest rate cut expectations.

9.4%

A headline gain of just over 9.4% for the S&P 500 in Pound Sterling terms.

Source: Bloomberg LLP, December 2024.

6.6%

Over the quarter the MSCI World Equity index returned 6.6%.

Source: Bloomberg LLP, December 2024.

21.5%

The Global MSCI index up 21.5% for the year.

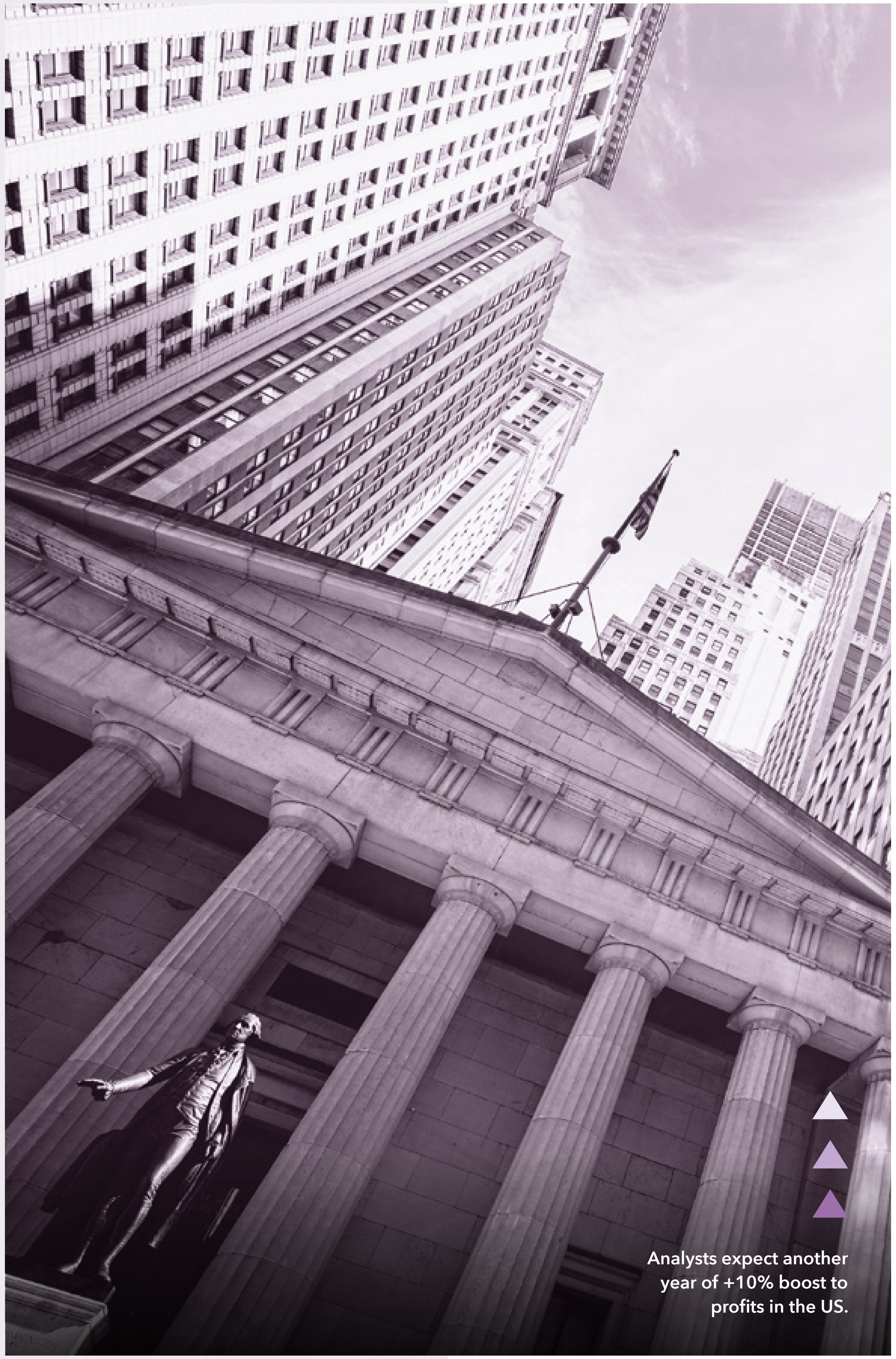
Source: Bloomberg LLP, December 2024.

Market outlook.

Twelve months ago the economic outlook was dominated by how much further global inflation would fall and how many interest rate cuts would be delivered by G7 central banks. Across the US, Canada and Eurozone the central banks there were all able to lower interest rates 1% point or more through 2024. Encouragingly, the Bank of England took the opportunity to lower Base Rate by 0.5% points. However, the path for inflation through 2025 is less clear.

Yet, there are many reasons to be optimistic towards market returns over the next twelve months. The first is that the outlook for corporate earnings remains upbeat. Analyst consensus expects another year of +10%[1] boost to profits in the US, mainly driven by big tech companies and the ongoing investment boom in AI. Here in the UK, analysts predict a +5%[1] boost to domestic profits, ending the unusually long earnings recession which has persisted since 2023. Second, global free cash flow, that is the actual cash retained by corporates after taxes and interest payments etc, has never been higher. Higher interest rates over the last two years did not translate into the earnings headwind that had been expected. Thirdly, household net wealth remains high, especially in the US. In fact, higher interest rates continue to contribute to growing savings balances in the UK, strengthening the ability of households to weather this period of sticky inflation.

> “There are many reasons to be optimistic towards market returns over the next twelve months.”



Analysts expect another year of +10% boost to profits in the US.

In the UK, analysts predict a +5% boost to domestic profits.

Another critical support this year is that market expectations for interest rates are far more realistic than this time last year. 2024, for example, began with expectations for more than 1.5% points of cuts to the US policy rate, the Federal Funds Rate. Remarkably, only 0.25% points are expected in the US over the next twelve months and it is similarly benign for the UK, with another 50bp in cuts expected. But nothing is expected over the first six months of the year, emphasising this market caution around near-term inflation pressures. So, markets appear well prepared for any firmness in price pressures into the Spring.

Another critical dynamic which supports the economic outlook is aggregate employment. Quite simply, companies continue to hire and have demonstrated an unwillingness to reduce headcount even during periods of economic weakness. For example, Germany has been in a modest recession for all of 2024, yet the number of people in employment in December was the same as at start of the year. And when the UK had consecutive quarters of very weak GDP growth into 2024, employment increased!

One wrinkle, however, may be global politics. Or specifically, US executive politics. Donald Trump has returned to the White House and his antipathy towards global trade imbalances are well known. Tariffs, which are Trump's policy tool 'de choix', have already been increased on imports from China. Tariffs have been threatened on Canada and Mexico. Whether Trump will apply similar tariffs to imports from Europe remains to be seen. Retaliatory tariffs are a credible threat from the EU, as they have been from other nations which have been indiscriminately threatened by Trump, such as Canada.

In summary, we believe the global outlook remains upbeat, driven by corporate profitability and an end to the increase in global interest rates. Whilst we are unlikely to see official policy rates fall by as much as they did last year, markets are well prepared.

Source:
[1] Bloomberg LLP, as of December 31st 2024.

Winners and losers: what worked in 2024?

> All in all, though, we're pleased we got our biggest calls right.

Now that 2024 is behind us, which investments were the winners and losers over the year? How do these outcomes differ from the predictions made 12 months ago – and what lessons can we learn about investing in an unpredictable world?

In 2024, the world had to contend with an unprecedented number of elections, a breakneck pace of technological change and war in Europe, Africa and the Middle East. But as governments fell and geopolitical tensions ramped up, excitement grew around space travel, machine learning and artificial intelligence (AI), and stock markets, by and large, did well.

So which investments worked best in 2024? Well, it was a great year for the US – justifying our focus on 'US exceptionalism'. The S&P 500 ended the year up 25% in US dollar terms. For the UK, it was a respectable year if not a particularly exciting one, with the FTSE All-Share up around 11%. European markets were the main laggards in the developed world: the MSCI Europe ex UK Index scraped home with a modest 7.7% gain.

Emerging markets were more of a mixed bag. China's stimulus programme led to its stock markets surging from September; although investors were later disappointed by the lack of detail, the MSCI China Index still finished the year up 14.9%. Most other Asian emerging markets followed China's lead. India lost a little ground later in the year after a spectacular start. Latin America, however, was the big loser over the year. Mexico and Brazil were among the weakest markets in 2024. Both fell heavily as a consequence of falling commodity prices, US dollar strength and domestic economic concerns.

Sector successes.

The year's biggest winner was the technology sector – and, as in the previous year, the so-called Magnificent Seven performed particularly well (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla were collectively up around 74% in 2024).[1]

Semiconductor stocks led the way in 2024. While the eventual winners of the AI race are unclear, investors have realised that they can profit by backing the companies that will provide those winners with the means to dominate – in this case, the manufacturers of the microchips that drive the AI dream. Magnificent Seven member Nvidia is the poster child here: its share price almost tripled in 2024.

But even when it comes to runaway successes like Nvidia, investors shouldn't get too comfortable. Of all sectors, tech is typically the one where changes come thick and fast. Incumbents are always challenged sooner or later, and no one can take one company's dominance for granted.

Here, it's important to remember the lessons of the dotcom bubble of 2000. Then as now, an exciting new technology offered to unlock endless possibilities. But not all the companies whose shares rose on the surging tide of internet optimism continued to perform well. When the bubble burst, many were swept away for good.

Sources:
[1] MAG7: 351.61 UNCH (UNCH), December 2024.
[2] Basic Materials summary: prices, performance and trends, FT.com, December 2024.
[3] Energy summary: prices, performance and trends, FT.com, December 2024.
[4] Health Care summary: prices, performance and trends, FT.com, December 2024.
[5] UK 10 year Gilt Bond, chart, prices, FT.com, December 2024.

Laggards and losers.

On then, to 2024's losers. The weakest area of the market was basic materials; China's sluggish economy weighed on the sector for much of the year, as did the elevated level of global interest rates.[2] Energy and healthcare were also notable laggards.[3,4]

But here again, we shouldn't dwell on past performance. We are still waiting to see how far Beijing will go to stimulate the Chinese economy; if the authorities pull out all the stops, we could see a considerable upturn in economic activity and in the fortunes of the materials sector. In the same vein, Donald Trump's promised wave of deregulation could catalyse the performance of energy and healthcare stocks.

Lessons learned for 2025?

We don't live in a simple, predictable world. If we look back at the forecasts made for 2024, we can see that the pundits were right to back the tech sector. But many also went all in on healthcare, which ended the year as one of the main laggards.

And while we at True Potential don't position our Portfolios for any one year, we have to hold our hands up about what worked and what didn't in 2024. We were right to favour US equities and while we were right to favour equities over bonds, our overweight in government bonds rather than corporate bonds didn't really work; yields on UK gilts rose ahead of the general election and then again in the wake of the Autumn Budget.[5] All in all, though, we're pleased we got our biggest calls right.

The key takeaway is that while big investment calls were made correctly, having a diversified portfolio as we believe the True Potential Portfolios are – allows you to absorb some mistakes without compromising the overall performance. This approach seems to have paid off in 2024, and the same strategy is expected to continue providing a solid foundation in 2025.

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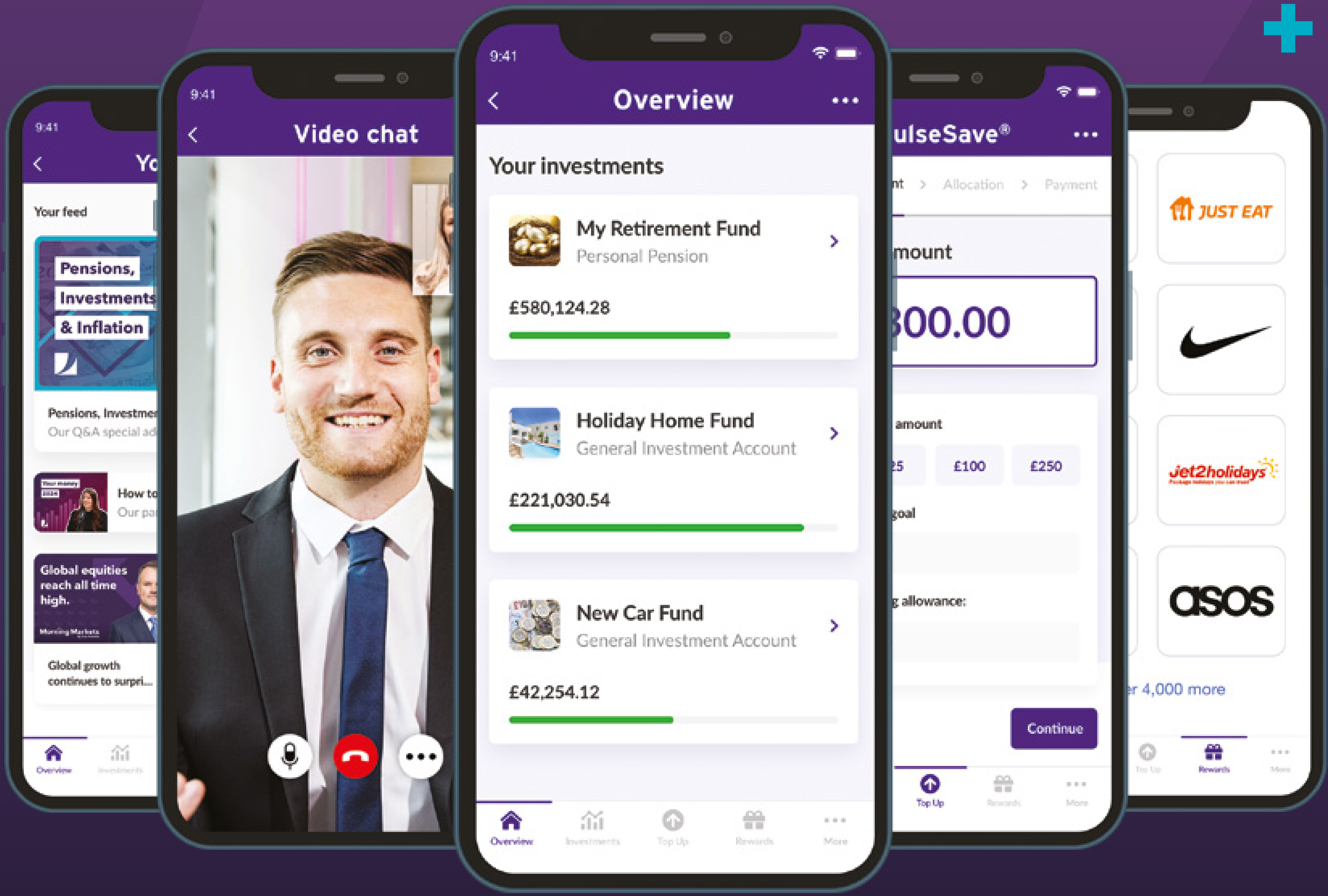

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Portfolio changes: Q4 2024

This quarter, the US election was a major focus for financial markets as they considered the potential impact of a Trump victory. US stock markets rose initially, driven by expectations that Trump's policies on taxes, tariffs, and deregulation would benefit American businesses and boost economic growth. In contrast, Europe and China saw slower performance due to concerns about how tariffs could affect their export-driven economies.

In response, True Potential Portfolios increased their investments in US stocks while reducing exposure to European and Emerging Markets. This shift, known as the "Trump trade," involved reallocating funds from Europe and Emerging Markets to US stocks. For example, UBS adjusted its portfolios to hold more US stocks while reducing European investments. Similarly, Pictet added US financial stocks, which are expected to benefit from Trump's deregulation policies, and reduced investments in Chinese stocks due to risks there.

Beyond stocks, our managers also increased their investments in global government bonds. However, bond yields rose during the quarter in the UK and US. In the UK, this was due to higher government spending and borrowing expectations, while in the US, it reflected strong economic growth and potential inflation, which influenced expectations for interest rate changes. Managers such as Growth Aligned and Goldman Sachs saw these higher yields as a good opportunity to invest more in bond markets, including US Treasuries and UK gilts.

Allocations to alternative investments have slightly decreased. For instance, UBS exited a currency strategy to directly manage their foreign exchange positions, and Schroder reduced investments in a specific equity strategy.

Regarding manager changes within our Portfolios, we increased allocations to Schroder in the Cautious and Balanced Portfolios by reducing investments in 7IM. This adjustment aimed to diversify more into global stocks outside the US and enhance active management, which can better identify investment opportunities. While we are still positive on US stocks, there is potential for a rally in global stock markets should Trump's tariff strategies be less aggressive than expected. Schroder's active management approach allows for more flexibility in navigating these opportunities compared to 7IM's primarily passive strategy.

In summary, we continue to have a positive outlook on riskier investments like stocks, particularly in the US, but have taken some profits and shifted part of our focus to global stocks outside the US. Our economic outlook for 2025 remains favourable, supporting the performance of diversified multi-asset portfolios.

Emerging Markets: will we see an Indian summer in 2025?

6.5%

India's economy is predicted to grow by 6.5% in 2025.

As 2024 came to a close, the US led the developed world in economic growth and equity-market returns. But the US isn't the only growth story in town. Emerging Markets could have plenty to offer investors in 2025.

The US is the world's largest economy, as well as the pick of the pack for stock-market performance. The world's fastest-growing major economy, however, is India.

India is an emerging market – that is, it has yet to reach the standards of liquidity and access that characterise 'developed' markets such as the US, the UK and Europe. With their typically fast-growing economies, emerging markets offer the potential for higher returns. But they are also higher risk: with less powerful institutions, high dependency on or vulnerability to commodity prices and greater potential for political instability.

This higher degree of risk is why emerging markets are not included in the MSCI World index, which is widely used as a global equity benchmark. But emerging markets offer a powerful means of diversifying portfolios, given the different drivers to which their economies and stock markets respond.

Crumbling BRICS.

Early this century, the leading emerging markets were dubbed the 'BRICs' – Brazil, Russia, India and China. The term was adopted by the countries themselves, with BRIC summits starting in 2009 and the addition of a capital S for South Africa in 2010.

Today, the BRICS have crumbled somewhat. Russia is uninvestable after its invasion of Ukraine. Brazil, South Africa and China have been struggling with domestic difficulties and slowing economies. And the post-Covid slowdown in China and higher global interest rates have had a further impact on the commodity-dependent economies of Latin American countries, including Brazil. Meanwhile, fertility rates are falling across the BRICS but have collapsed in Russia and China, meaning that their populations are set to contract sharply in the coming decades.

Indian exceptionalism?

India, however, stands out as a model of economic dynamism. Its economy is forecast to have grown by 7% in 2024 and is predicted to grow by 6.5% in 2025 – figures that are the envy of other major economies.[1,2]

India's stock-market returns have been similarly spectacular. A muted end to 2024 took the shine off a still-respectable full-year return, but the Indian market has far outstripped its emerging-market peers in recent years. India is also differentiated from most other emerging markets in that its service heavy economy is less exposed to volatility in commodity prices.

But this success has left the Indian market looking fully valued. It currently trades at around twice the valuation of emerging markets as a whole.[3] Here, though, a comparison with the US can be instructive. Both India and the US have performed very well in recent years, and both trade on lofty valuations. Both economies are going great guns. But investors are prepared to buy US stocks on high valuations because they think there's more to come. Should we be looking at India in the same light? It's an intriguing question and one that we'll be considering in the months ahead.

An eye for opportunities.

There are, however, clouds on the horizon for emerging markets overall. Last year's big development was the re-election of Donald Trump as the US president. That represents a threat to emerging markets in several different ways. The first is the most obvious: Trump's tariffs. High duties on imports would have a severe impact on many emerging markets – with China's electric vehicles the most prominent example.

Beyond that, there's the strength of the US dollar. A strong dollar makes life difficult for emerging markets because many of the commodities they produce are denominated internationally in the US currency. So when the dollar strengthens – as it has done since Trump's victory – emerging markets tend to lose out. If Trump does go ahead with widespread tariffs, goods will become more expensive for American consumers – boosting inflation in the process. Higher US inflation would prompt the Federal Reserve to keep interest rates higher for longer, which means an even stronger dollar (because US bank deposits become more attractive as a place to park your cash).

But we shouldn't let the challenges that emerging markets face obscure their potential to offer exceptional stock-level opportunities. There are plenty of companies in China, Brazil and other emerging markets that offer a remarkable level of innovation, dynamism and potential for diversification.

In our True Potential Portfolios, emerging markets make up a relatively small proportion. And India is an even smaller part of that. But we never stop assessing our options, and we always keep an open mind. India's vibrant economy and differentiation from its emerging-market peers are a key consideration. India is also less exposed to risks emanating from the US than other emerging markets – something to be set against its elevated valuations. So it's a market to which we'll be paying close attention as 2025 unfolds.

Sources:
[1] India and the IMF, December 2024.
[2] World Economic Outlook, October 2024: Policy Pivot, Rising Threats, December 2024.
[3] MSCI India Index, December 2024.

The impact of using your tax allowances in 2025.

A new tax year will soon be underway, with 6th April marking the beginning of the 2025/26 tax year.

So what does this mean for you? Primarily, a new year means new opportunities for potential growth, with ISA and pension allowances reset. The tax allowances for both remain the same, with no changes following last October's Autumn Budget.

However, you also have just under two months to take advantage of the remaining tax year. In this article, we'll explore the impact of using your tax allowances in further detail.

What are the allowances?

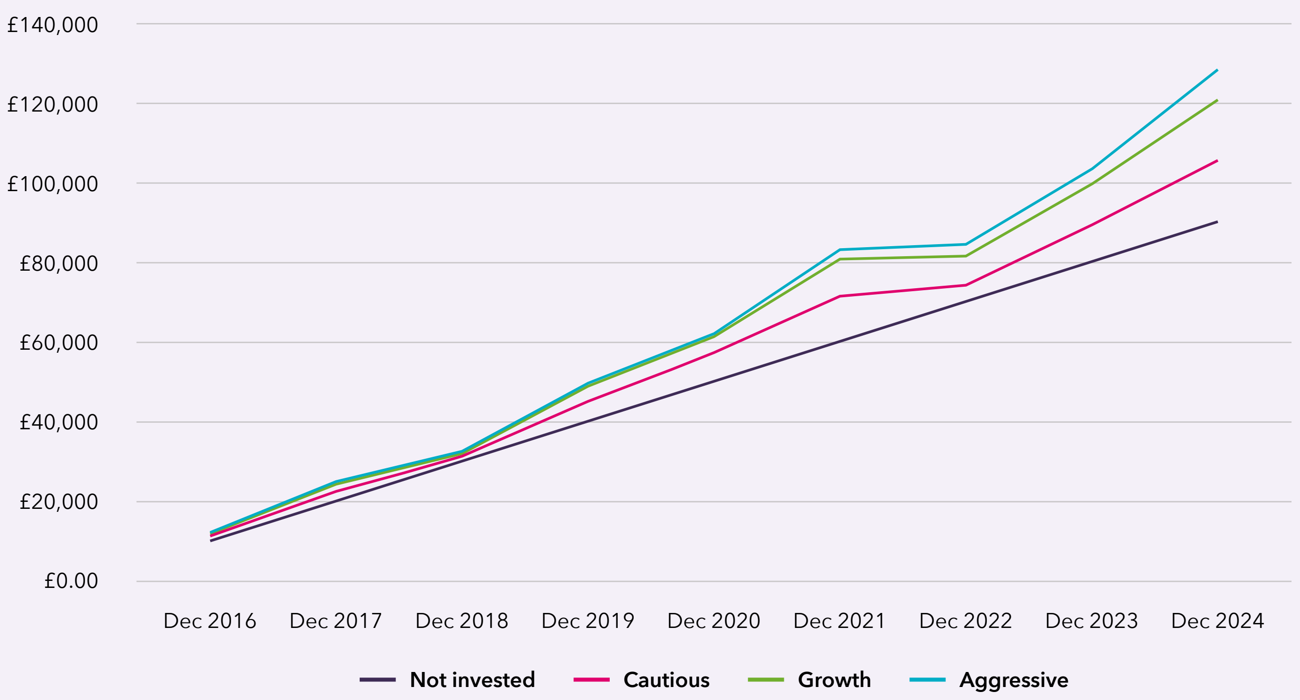
Your pension allowance.

A pension is a great way to build wealth towards your future retirement goal, and investing early means more time to potentially grow your money.

Your pension contribution limit depends on your income. For example, this current tax year, the tax-free annual limit is 100% of your salary or £60,000 (whichever is lower). This does, however, include both contributions paid by you and contributions paid by your employer.

Any contributions beyond these limits are subject to Income Tax at your marginal rate.

Eight year True Potential Portfolio performance



Source: True Potential Investments December 2024.

> By using your tax-free ISA allowance you can give your investments more opportunity for potential growth.

Your ISA allowance.

The ISA allowance for the current tax year and 2025/26 is £20,000, which it has been since 2017/18.

There are different types of ISAs available for investment and one example is a Stocks & Shares ISA. This provides a tax-efficient way to invest your money as any profit is exempt from UK Income and Capital Gains Tax. This type of account also lets you put money into a range of different investments.

A Stocks & Shares ISA could be an option if you are prepared to keep your money invested for a number of years. It's important to remember with investing, your capital is at risk. Investments can fluctuate in value and you may get back less than you invest.

Why are they so powerful?

By using your tax-free ISA allowance you can give your investments more opportunity for potential growth and protect your money from Income and Capital Gains Tax. Similarly, using your pension allowance and maximising the tax relief on your contributions is one of the best ways to take advantage of your pension and support an early retirement.

Our Portfolios aim to maximise your returns and reduce risk. Take our True Potential Balanced Portfolio, for example. If you had invested £10,000 into this Portfolio on the first day of each year since 2016, you would have invested a total of £90,000 over a 8-year period while the current value of your Portfolio would stand at £111,985[1] as of 31st December 2024.

Investing the same amount in a Cautious Portfolio would have returned £105, 386[1], a Growth Portfolio £120, 531[1] and Aggressive Portfolio £128,141[1] – all in the same timeframe. This puts into perspective the power of investing, as that total of £90,000 would otherwise be eaten by inflation if it was just left to accumulate £10,000 per year in a current account - without the potential benefits of Portfolio growth.

Please note, this is performance after fund fees and takes into account the performance of the Portfolio. Remember, past performance is not a guide to future performance and your investment could go down as well as up.

How to use your allowance.

Take the next step towards your financial goals by using your tax-free allowances by April 5th. You can log in to your True Potential app or online account and access your investments from there.

Once in, tap impulseSave® to top up from £1, confirm your details and we'll process the contribution, it's that simple. Once the new tax year starts, remember that investing early can then give your investments more time to potentially grow.

If you have any concerns or questions, then speak to a financial adviser today, and think about how you can do more with your money.

Source:
[1] True Potential Investments, January 2024.

Tax is subject to an individual's personal circumstances, and tax rules can change at any time. Pension eligibility and tax rules apply. ISA eligibility and tax rules also apply. This article is not personal financial advice.

Scan and log in to your online account to use up your allowances.

Our outlook for 2025: how we see the US.

It's fair to say that 2024 ended with a bang. Donald Trump's re-election as US president wasn't a surprise to everyone, but it was certainly a shock to many. The result left the defeated Democrats in disarray and much of social media in meltdown. But as we enter 2025, we're continuing to keep our Portfolios overweight in the US. Here's why.

An interesting aspect of Trump's campaign was the endorsement he received from a range of business leaders – including many who had formerly backed the Democrats. Everyone knows about Elon Musk's support of Trump, with Musk now lined up to head Trump's Department of Government Efficiency. But Musk had previously donated to Barrack Obama's campaigns and has said that he generally voted for the Democrats in the past.[1]

A similar pattern holds with other business leaders who got behind Trump, including Bill Ackman and Marc Andreessen, or who failed to endorse Kamala Harris as they had her Democratic predecessors, as with Jeff Bezos and The Washington Post. They may have believed they had more to lose from a victorious and vengeful Trump than a Harris presidency. But other factors were certainly at play: some of these individuals were disillusioned with the Democrats while some thought that Trump would be better for business.

Trump 2: the good, the bad and the ugly.

So what is Trump proposing, and how is it likely to affect companies in the US? We might divide his proposals into 'good' and 'bad' – with the prospect of an 'ugly' outcome if the worst comes to pass.

On the 'good' side is the prospect of tax cuts. This is likely to involve the extension of Trump's Tax Cuts and Jobs Act along with a cut to Corporation Tax – with an additional cut for companies that manufacture their products in the US.[2]

Companies in many industries are also looking forward to a wave of deregulation. Most obviously, oil, gas and coal companies would benefit from Trump's proposed removal of environmental regulations. But sectors such as cryptocurrency, mainstream finance and pharmaceuticals could also receive a boost from reduced red tape.

The 'big bad' that looms over the second Trump presidency is the question of tariffs. As part of his 'America First' agenda, Trump has threatened to impose tariffs of 10-20% on all foreign goods and 60% or more on goods from China. This has sparked fears of a global trade war; the big question now is whether these tariffs will materialise or should instead be perceived as the opening gambit in a transactional approach to international trade.

And that's where the 'ugly' rears its head. Although import tariffs might seem like a potent means of boosting US-manufactured goods, duties on the scale that Trump is considering would hit US consumers hard – driving retail prices up and raising the spectre of resurgent inflation. This could delay or even reverse the Federal Reserve's normalisation of interest rates. Meanwhile, Trump's pledge to curb immigration could also have an inflationary effect as employers compete for the services of a smaller pool of workers.

Here we can hope that Trump has learned a lesson from Joe Biden's tenure. The Republican clean sweep in November came as a surprise, but incoming US presidents are always aware that mid-term elections loom just two years ahead. Inflation played a large part in the Democrat defeat in 2024, and so it's likely that the Trump administration will be mindful of that as trade terms are thrashed out.

America First?

There's much that's uncertain about the new Trump term. But we're looking beyond the ramifications of the presidential programme to the strengths of corporate America itself. Those strengths have been much in evidence in recent years – and much appreciated by investors: so much so that the S&P 500 now trades on valuations close to its historical highs.

That big picture can be misleading, though. The S&P 500 Equal Weight index, which gives each of the largest 500 US companies the same weighting, currently trades on a much more reasonable valuation than the market-cap-weighted index. As the US economy continues to demonstrate remarkable robustness, we've already seen earnings growth starting to broaden out beyond the big technology stocks. Corporate tax cuts would support this, although renewed inflation and the Fed's response could undermine it.

We'll be monitoring developments carefully and are always ready to change our views as the facts dictate. But for now, we think that America's productivity, creativity and capacity for innovation continue to justify our US overweight. It's eminently possible that the second Trump term will compound these attractions more than it disrupts them.

"Companies in many industries are also looking forward to a wave of deregulation."

Sources:

[1] Elon Musk compares Biden to Anchorman and says he's voting GOP at next election, The Independent, May 2022.

[2] Harris Tax Plan vs. Trump Tax Plan, Election 2024, October 2024.

Five year performance.

Portfolios	31 Dec 2019 to 31 Dec 2020	31 Dec 2020 to 31 Dec 2021	31 Dec 2021 to 31 Dec 2022	31 Dec 2022 to 31 Dec 2023	31 Dec 2023 to 31 Dec 2024	Since launch annualised* (1 Oct 2015)
Defensive	+3.02%	+2.83%	-7.43%	+4.39%	+4.55%	**+2.49%**
Cautious	+3.69%	+6.28%	-8.75%	+6.02%	+6.37%	**+3.93%**
Cautious +	+2.80%	+7.77%	-9.99%	+6.95%	+7.38%	**+4.15%**
Cautious Income	+0.52%	+9.87%	-8.39%	+7.18%	+8.04%	**+4.78%**
Balanced	+3.53%	+9.81%	-10.50%	+7.97%	+8.36%	**+5.34%**
Balanced +	+3.57%	+10.76%	-10.49%	+8.07%	+9.22%	**+5.89%**
Balanced Income	-0.78%	+10.98%	-9.11%	+8.27%	+8.60%	**+5.27%**
Growth	+4.07%	+13.12%	-10.17%	+8.73%	+10.56%	**+7.01%**
Growth +	+2.47%	+14.25%	-11.01%	+9.77%	+12.15%	**+7.17%**
Aggressive	+3.81%	+15.59%	-9.22%	+9.64%	+13.31%	**+8.21%**

Source: True Potential Investments, data as of 31 December 2024.
Figures shown after Ongoing Charges Figure (OCF) has been deducted.
*An annualised return is a measure of how much an investment has increased on average each year during a specific period.

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