January 15th, 2025

Q4 2024

Dear Investors,

Hanway Capital Fund has returned **+7.7% this quarter,** reaching a share price of **€149.2** net of fees and commissions. This brings the fund's **full year return to +6.2%.** Our determined strategy for a crash in volatility after the American elections has paid off, allowing us to finalize the year with a good return taking less risks. Looking ahead to 2025, this year promises to be anything but calm with Donald Trump returning to the White House. He has not yet taken the oath of office and has already surprised us by adding an expansionist twist to his rhetoric: the great world power will be led by a highly unpredictable leader. His first weeks will be key to understand the direction and priorities of this new administration. The behaviour of financial assets depends on it.

Silicon Valley vs. the MAGA *movement*

The biggest electoral conundrum of 2024 has been resolved: Donald J. Trump will return to the Oval Office after a resounding victory in the American elections. He has become the first Republican candidate to win the popular vote in 20 years.

His term in office begins next week with what is politically known as a trifecta: the Republican Party will control the three main American institutions: Congress, the Senate and the White House. Although they've got a slim majority in Congress, in theory it's enough to allow Donald Trump to carry out his most controversial measures. However, no one knows where his administration will focus; in fact, two opposing factions have already emerged among his team.

On the one hand, there is the technology moguls. Trump relied on them for funding and campaigning in the media, and now they're demanding senior cabinet positions in his government. As we explained in our last letter, the most notorious case is that of Elon Musk, the richest man on the planet and owner of social network X, but there are others. Vivek Ramaswamy, a biotechnology entrepreneur, will co-lead the Department Of Government Efficiency (DOGE) alongside Musk. In other words, an American version of Javier Milei's chainsaw.

In the opposite corner, the old anti-globalist Trump supporters, the original Make America Great Again movement has not disappeared, and they are led by the future vice president JD Vance. As expected, they disagree with the tech moguls on practically everything the president should focus on.

While some want to bolster America's economic and technological advantage by cutting red tape and boosting innovation, the MAGA movement hopes to restore a romantic version of the past where manufacturing took the centre stage. Tech moguls have a libertarian bent and distrust big government, while MAGAs abhor the oligarchic power of Big Tech. Some seek self-sufficiency with minimal imports of foreign products and the repatriation of illegal immigrants, while the tech world has greatly benefited from globalization, talent attraction and international capital flows.

All of this is crucial because the outcome of this battle between the two factions will determine the course of the American administration, and therefore that of the economy and the markets. Later, when we analyse the economic and geopolitical consequences of Donald Trump's victory, you will see that many of his initiatives are contradictory to each other. Pursuing tariffs and anti-immigration policies as the MAGAs want, could be inflationary, while cutting public spending massively as Elon Musk would like could cause an economic slowdown.

America for Americans

Mark Twain said that history never repeats itself, but it often rhymes. In today's American politics, this premonition seems more accurate than ever.

We are in the 20s, and the Republican candidate for the White House is running under the slogan "America First." Appealing to the working middle class, he promises isolationism, protection for American workers, non-interference in foreign conflicts, and re-prioritizing domestic affairs through "law and order."

We are not talking about 2024 or Donald Trump. In fact, we are referring to the American elections of exactly a century ago, when Warren Harding ran and won in 1920 with the same slogan that candidate Trump would use 100 years later.

We are used to the United States playing a noticeably interventionist role, playing world arbiter in different conflicts, but this has not always been the case. The United States, and particularly the Republican Party, has always flirted with isolationism: the idea that everything that happens beyond its two great natural trenches (the Atlantic and Pacific oceans) should not matter to them, since these would serve as a guarantee for their national security.

But the idea of "America First," was not even new in 1920. If we go back another 100 years, the concept of the Monroe Doctrine appeared in 1823. It is worth pausing to explore this policy in more detail, since Donald Trump has surprised everyone with a Copernican revolution in foreign policy. In recent days he has spoken of annexing Greenland and the Panama Canal by military force if necessary and has humiliated the Canadian prime minister to the point of resignation by referring to him as Governor Trudeau (the title given to the leaders of the American states in reference to making Canada the 51st state of the Union).

The Monroe Doctrine, proclaimed by American President James Monroe, which has been present in the American cosmovision in all its variations, established that the United States would not allow future interventions by European monarchies in the American continent, in exchange for abstaining from intervening in European political affairs. In the context of Latin American independences, it was summed up as: "America for the Americans." A new continent that sought to distance itself from its European past.

EXPANSION!
The western patrol's long stretch.

Initially, this principle sought to guarantee the sovereignty of emerging American nations from European interference, while at the same time developing an isolationist policy with tariffs to protect the nascent American industry. However, as Washington gained political and military power, the Doctrine evolved from a defensive stance to a clear interventionist one.

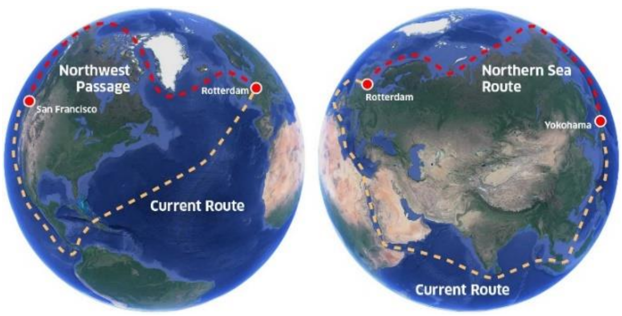
In 1845, President James Polk annexed the newly independent Republic of Texas from Mexico to keep it from falling into foreign hands. The following year, Polk invoked the Doctrine to justify a war with Mexico that ended with the expansion of American sovereignty over California and the American Southwest. Under the theory of Manifest Destiny, James Polk shared the belief that God had commanded American settlers to expand all the way to the Pacific shore. Later, in 1867, President Andrew Johnson also invoked the Monroe Doctrine to purchase Alaska. The United States entered a new stage of soft colonialism, considering the entire Western Hemisphere (North and South) to be its backyard, which culminated in 1898 with the seizure of Cuba and Puerto Rico from Spain.

At the beginning of the 20th Century, the incorporation of the Roosevelt Corollary into the Monroe Doctrine gave the United States the right to intervene in the internal affairs of South American countries to maintain order and stability, even without the European threat. This reinterpretation justified various American actions in the region, such as in 1903 when President Theodore Roosevelt interceded to guarantee Panama's secession from Colombia, and secured the exclusive right to build the Panama Canal, which was under American control until the recently deceased President Jimmy Carter ceded it in 1977.

After decades of stability following the Second World War, Donald Trump seems ready to shake all alliances and return to the Monroe Doctrine. The United States has been gradually abandoning the role of world arbiter that has so characterized it since the Cold War; what we did not expect was that behind this isolationist policy that Trump advocates so much, there was an expansionist desire.

Over the years, we've seen how the Monroe Doctrine has been reinterpreted to justify various actions taken by the United States, adapting to the strategic interests of the moment. It would not be far-fetched to think that the United States would acquire a territory like Greenland. After all, American expansionism has been marked by various purchases: Louisiana in 1803, Florida in 1819, Alaska in 1867, and there's even a precedent of territorial purchase from Denmark: the Virgin Islands in 1917 for $25 million.

Thus, although Donald Trump's statements may seem crazy, his advisors seem to understand that we are preparing for a potential war. They want to guarantee control of strategic enclaves on the American continent, such as the Arctic route as the ice melts, and the Panama Canal. In other words, in the event of a global conflict, America is for the Americans.



What markets can expect from Trump 2.0

2025 will be a year of profound changes in the United States. Trump arrives at the White House with prior knowledge of how the ins and outs of Washington work; we will not see a transition period, but rather a frenetic activity from the moment Donald Trump steps into the Oval Office. The next few weeks will allow us to elucidate which policies he will prioritize. As we mentioned before, the winner of the fight between the two Trumpist factions (tech moguls or MAGAS) is extremely important, since they defend opposing policies and market reactions will depend on it. Beyond last-minute occurrences of an unpredictable president, these are our main focuses:

1. **Tariff policy:** During his campaign, Trump proposed tariffs of 10-20% on all products entering the United States, and 30-60% on Chinese products. Experience from his previous term tells us that Trump uses tariffs more as a threat to obtain concessions than as a general policy. However, if blood were to spill and a tariff war were to break out, we expect an increase in inflation that would force the Federal Reserve to raise interest rates and a general fall in the stock market as a result, with greater impact on export sectors.

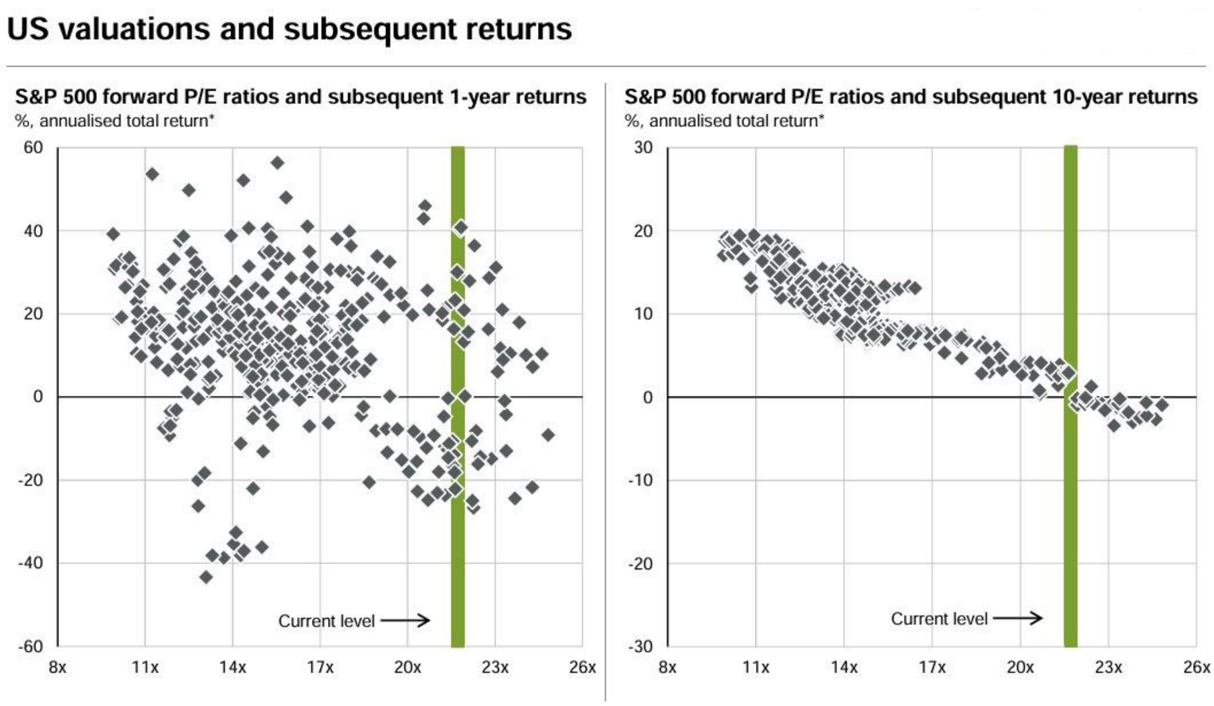
2. **Immigration policy:** Donald Trump was re-elected with the intention of limiting immigration and even deporting millions of illegal immigrants. The American labour market remains buoyant, with 1.2 vacancies for every unemployed person. A restrictive immigration policy will limit the already scarce supply of workers, increasing wages and therefore business costs. It will particularly impact industries that require foreign labour, such as construction, trade and agriculture. The technology sector could also be impacted in terms of attracting talent if H-1B visas for highly qualified foreigners are limited.

3. **Fiscal policy:** Two measures with opposite impacts coexist. On the one hand, the tax cuts advocated by the most liberal sectors of the party, which if implemented, will exacerbate the public debt problem. In recent weeks, 10-year interest rates in the United States have skyrocketed to almost 5% despite the cuts by the Federal Reserve. If this gets out of control, we could find ourselves facing a debt crisis with uncertain results. On the other hand, there is a desire to cut public spending considerably. The tycoon Elon Musk will lead the recently established Department of Government Efficiency (DOGE). If he were to achieve a significant cut, interest rates would ease, and inflation would fall. The negative part is that it could cause a slowdown in the economy.

4. **International politics**: This is probably the most uncertain variable. We can expect some progress in the resolution of the Ukrainian conflict, even if this means giving Vladimir Putin the upper hand and forcing the Ukrainians to cede part of their territory. But a ceasefire should not have a considerable impact on Europe: our trade relations with Russia have been mortally wounded, and sanctions are unlikely to be lifted. On the other hand, in the Middle East, Netanyahu will have more room to try to continue changing the balance in the region. We do not rule out the possibility that the weakness of the Ayatollah regime in Iran will be exploited to provoke its collapse. All these manoeuvres are of a high risk to execute, and could lead to greater conflict, with the consequent rise in oil prices and destabilization of the financial market. But it is no longer just a matter of foreign conflicts as we have seen before, American foreign policy will have expansionist overtones, from the possible purchase of Greenland to the annexation of the Panama Canal.

Our American-centric view of the world may surprise some, but the reality is that for several years now, American supremacy in the financial markets has been absolute. The weight of the American stock market in global equities is at an all-time high and represents 65% of the total, although this American strength may also be its Achilles heel.

The American stock market is trading at exceptionally high valuations, and although we do not consider it a bubble, we believe that the risk of a strong correction due to some exogenous shock continues to increase. As we have told you many times, company valuations are a poor market-timing indicator: in fact, euphoria can take over the market and continue to inflate it for years. But as long-term investors, valuations are a very good indicator of the returns we can expect over the next decade. **Therefore, our obsession will continue to be patience and the diversification of Hanway Capital's portfolio in different assets to guarantee stable long-term returns for our investors.**



(The graph on the left shows returns obtained by the S&P 500 over a one-year period according to its starting valuation point; no trend can be observed. However, the graph on the right shows annualized returns obtained over 10 years. In this case, the trend is evident: the more expensive the stock market is (currently at 22x earnings), the lower the long-term returns).

Management report

Let us now analyze the fund's individual positions for this quarter:

1. **Equity position:** Donald Trump's election victory pushed global stock markets to new all-time highs, but the euphoria has quickly dissipated since the peak on December 6th. The much-hyped Santa Claus rally never came, and although the S&P 500 closed the period in positive territory (+2%), it was the weakest rise in the last 5 quarters. The fund took advantage of the gains to reduce its equity exposure to 60%, which added + **2.0%** to the result.

2. **Volatility position:** After several quarters without quite finding the right trade in terms of volatility, this quarter we have made the right decisions. As we explained in our last communication, the fear of an inconclusive result seemed exaggerated to us. In the early hours of November 6, once it became clear that Trump's victory was indisputable, volatility dropped from 22 to 15 in just a few hours. As we have already mentioned on other occasions, when everyone has an event marked on the calendar, it is difficult to catch the market off guard. The contribution of volatility this quarter has been **+4.2%**.

3. **FX position:** After abandoning our bet on the Japanese yen, we have benefited in recent months from the appreciation of the dollar. The American economy has continued to surprise everyone with its strength, forcing the Federal Reserve to reconsider its aggressive campaign of rate cuts. In Europe, however, its increasingly weak economy has forced the ECB to maintain its dovish rhetoric. This trend, which we hope will bring the euro to parity with the dollar in the coming months, has added **+1.1%** to the overall result.

4. **Gold position:** After 9 months of almost uninterrupted gains during which it has increased by almost 40%, gold has taken a breather this quarter. The shift towards more restrictive positions by the American central bank has slightly weighed on its price. However, it has continued its rise against when measures against the euro, which has contributed another **+0.7%** to profitability.

5. **Short fixed-income position:** Interest rates have behaved erratically throughout 2024. During the first half of the year, they fell slightly in anticipation that the Federal Reserve was about to begin its rate-cutting campaign. But since that first cut finally took place in September, interest rates have begun an unprecedented climb. Perhaps the bond market is recommending the future president to be cautious with public spending. Perhaps the bond market is recommending the future president to be cautious with public spending. We abandoned this position shortly before the election, so its impact on the funds was only **-0.1%**.

6. **Commodities position:** Our uranium position has had an inconsequential quarter, still in a bearish trend. We are waiting to hear what the new president thinks about nuclear energy, which has lost **-0.2%** during this period.

"When your work speaks for itself, don't interrupt"

- Henry J Kaiser

Kind regards,
Hanway Capital

Appendix: Hanway Capital Fund historical net returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	-	-	-	-	-	-	-	-	-	-	-0.4%	1.2%	**+0.8%**
2020	-2.9%	-3.0%	18.3%	4.6%	-0.4%	3.2%	-23%	0.5%	-2.7%	-1.9%	9.1%	3.8%	**+27.0%**
2021	-1.9%	2.8%	3.0%	1.2%	0.6%	0.9%	-0.8%	1.5%	-1.1%	2.4%	1.3%	3.1%	**+13.7%**
2022	-1.7%	0.0%	2.1%	1.8%	0.8%	-6.1%	3.0%	2.6%	2.1%	1.9%	-2.2%	-1.7%	**+2.0%**
2023	1.1%	0.5%	-3.1%	-1.0%	-1.2%	-3.7%	-0.1%	1.2%	1.6%	0.2%	-1.0%	0.2%	**-5.4%**
2024	-2.5%	0.2%	-1.5%	-3.8%	4.3%	1.3%	2.2%	-5.2%	4.0%	-0.4%	9.3%	-1.1%	**+6.2%**

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