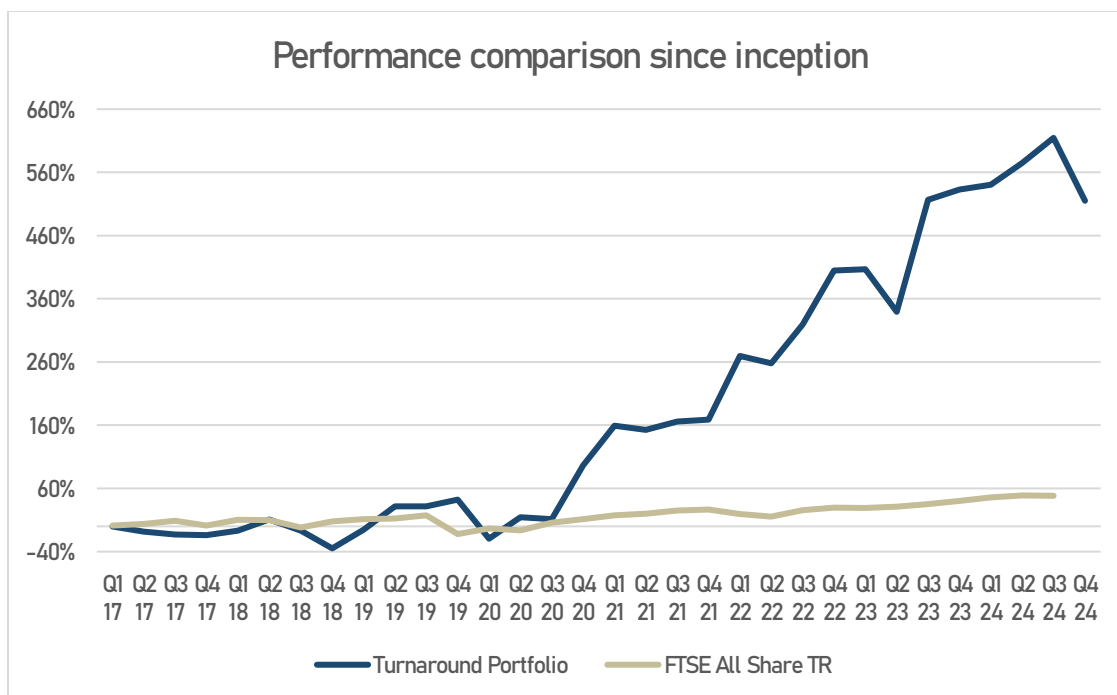


## Q4 2024: Elections are over, now the delivery starts

Quarterly Performance	Turnaround Portfolio	FTSE All Share TR
Q1 17	0%	0%
Q2 17	-8%	1%
Q3 17	-5%	2%
Q4 17	-1%	5%
Q1 18	9%	-7%
Q2 18	19%	9%
Q3 18	-16%	-1%
Q4 18	-30%	-10%
Q1 19	45%	9%
Q2 19	39%	3%
Q3 19	0%	1%
Q4 19	8%	4%
Q1 20	-43%	-25%
Q2 20	42%	10%
Q3 20	-3%	-3%
Q4 20	76%	13%
Q1 21	32%	5%
Q2 21	-3%	6%
Q3 21	5%	2%
Q4 21	1%	4%
Q1 22	37%	1%
Q2 22	-3%	-6%
Q3 22	17%	-3%
Q4 22	20%	9%
Q1 23	0%	3%
Q2 23	-13%	0%
Q3 23	40%	2%
Q4 23	3%	3%
Q1 24	1%	4%
Q2 24	5%	4%
Q3 24	6%	2%
Q4 24	-14%	0%

Annual Performance	Turnaround Portfolio	FTSE All Share TR
2017	-9%	9%
2018	-31%	-9%
2019	113%	19%
2020	52%	-10%
2021	37%	18%
2022	99%	0%
2023	26%	8%
2024	-1%	10%

Overall Performance	Turnaround Portfolio	FTSE All Share TR
CAGR	25.5%	5.1%
2017-24 Return	515%	48%



6<sup>th</sup> January 2025

Dear Reader,

This quarter has been one of the worst quarters since Q2 2023, Q1 2020 or H2 2018 for me. I'm going into more details as to why this year was so negative in the performance section towards the bottom. In a nutshell, I explored too many opportunities, but concentrated not necessarily on the wrong ones, but applied a shorter than usual investment horizon. This was largely due to there being too many 50/50 macro events, such as the US election or the not so positive UK Budget that led me to take neutral positions in a few instances. On the positive side, historically a quarter like this was usually followed by a strong quarter thereafter, and I believe that could turn out to be happening again.

### Why the Fed won't cut interest rates aggressively (for now)

During the last two weeks of 2024, first the 30yr, then the 10yr and finally the 5yr UST yield surpassed the Federal Funds rate for the first time in over two years (110 weeks in the case of 10yr UST), with the 2yr UST now trading around Federal Funds rate. This was the longest yield curve inversion for at least 60 years. Every time the yield curve dis-inverted over the last 60 years, it was generally driven by a crisis and

resulting rapid reduction of the Federal Funds rate. However, this time the steepening of the curve is driven by lower rate reduction expectations and fear of another round of high inflation. This also occurred towards the end of 2019<sup>1</sup>, in mid-2008<sup>2</sup>, in 1999<sup>3</sup>, and in the 1990s. Although, the length of the yield curve inversion and frequency of Fed funds hikes, holds and cuts are only similar to one historic period: 2007/08. Credit delinquency rates have not ticked up meaningfully enough to justify aggressive rate cuts either. However, Q3 2024 delinquency rates are similar to those of Q2 2007, including the slowly rising trajectory in the quarters before. In 2008, as well as in 1990, we had rapidly rising oil prices that hindered the Fed to cut rates further. In 2019 and 1999, the economy was generally still strong, hence warranted no further rate cuts. In the latest December 2024 FOMC statement, the economy was still strong, and inflation was not rising. If history was a guide though, positioning for higher oil and gas prices in the short-term could prove attractive. Delinquencies on properties are not a worry, but delinquencies on consumer loans could become problematic.

#### Historic US yield curve inversions

Period	# of weeks UST 10yr - Fed Funds inversion	Weeks between last hike and first cut	Weeks between last hike and end of inversion
1973-74	99	1	26
1978-80	92	1	7
1982	17	1	16
1989	52	9	39
1998	29	12	16
2000-01	46	33	46
2006-09	81	58	77
2019	23	32	44
2020 Covid	4	-	-
Now	110	60	74

Source: FRED St. Louis

<sup>1</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20191211a.htm>

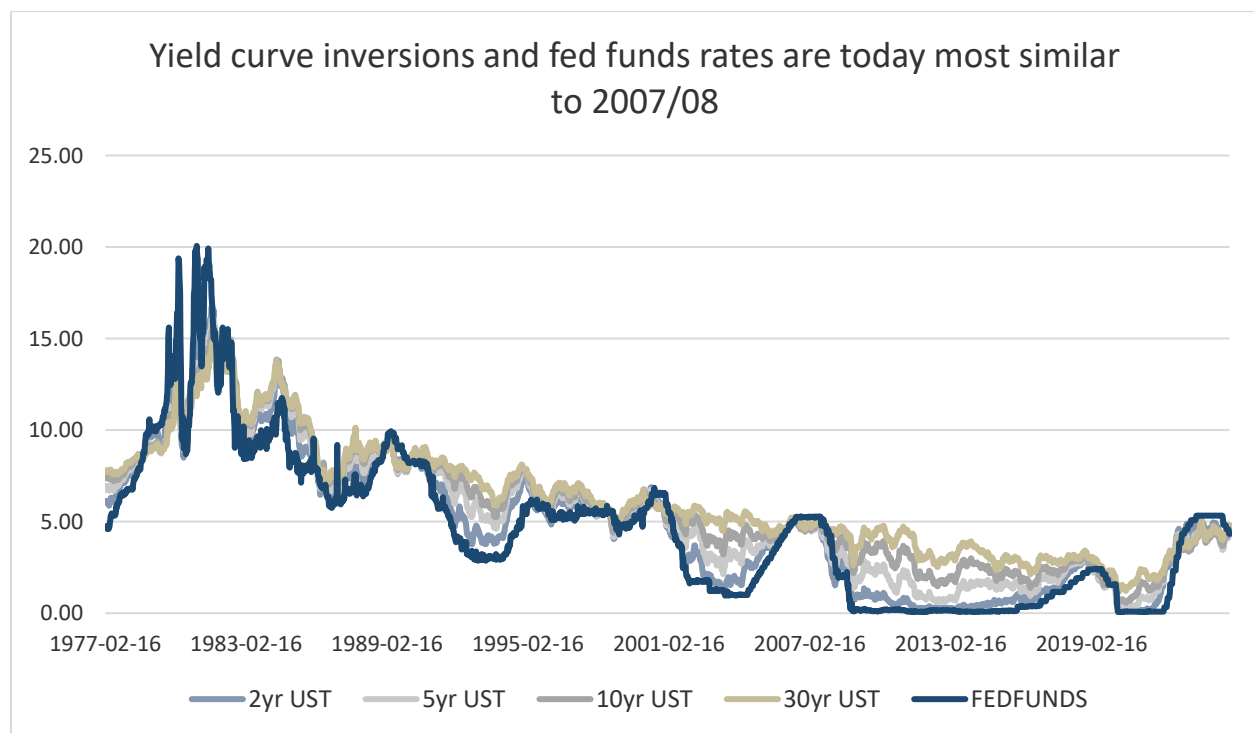
<sup>2</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20080625a.htm>

<sup>3</sup> <https://www.federalreserve.gov/boarddocs/press/general/1999/19990518/>

## Historic US yield curve inversions and impact after inversion on stocks and oil prices

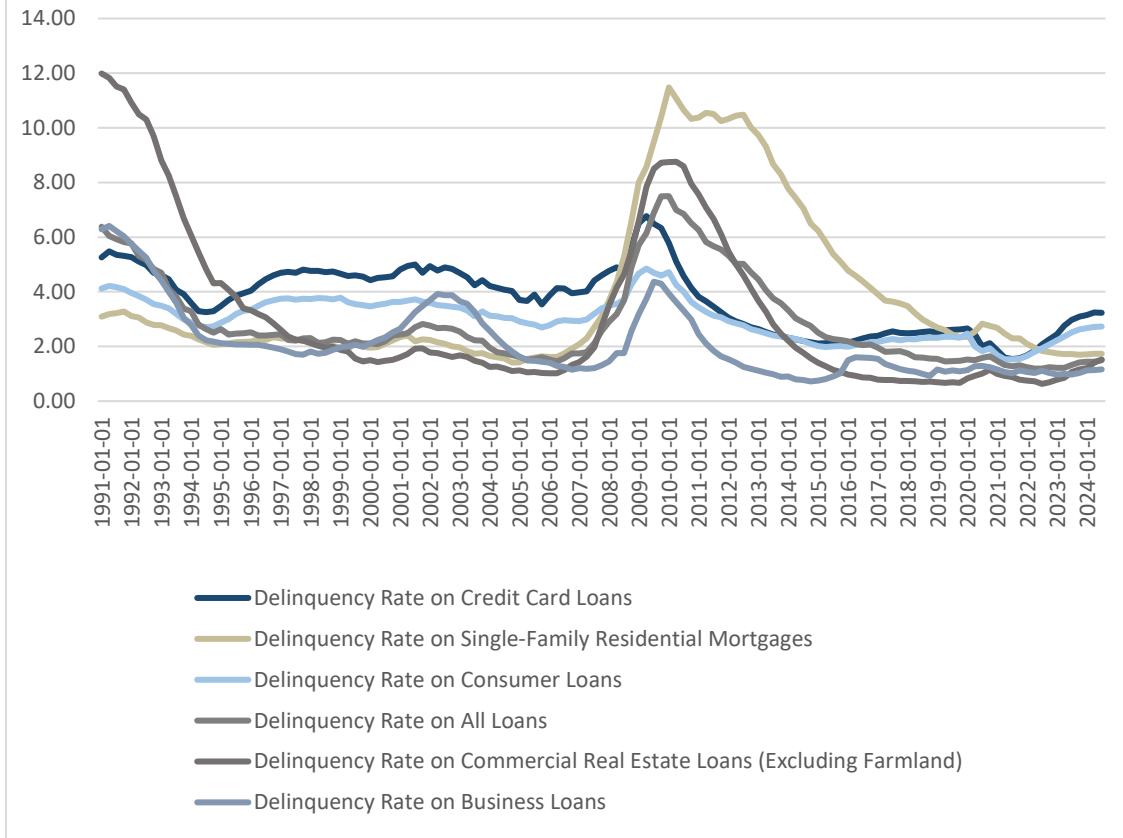
Period	# of weeks UST 10yr - Fed Funds inversion	WTI \$/bbl change	WTI \$/bbl change 3 months after inversion	S&P 500 change	S&P 500 change 3 months after inversion
1973-75	99				
1978-80	92			6.7%	13.5%
1980-81	60			-3.9%	-10.4%
1982	17			-2.7%	18.0%
1989	52	21.0%	-22.0%	15.3%	1.5%
1998	29	-22.0%	27.0%	11.5%	5.6%
2000-01	46	-7.0%	-7.2%	-7.8%	-4.2%
2006-08	81	18.7%	23.6%	19.2%	-5.8%
2019	23	-13.0%	15.0%	11.4%	6.5%
2020 Covid	4	-10.0%	-20.0%	-22.0%	19.7%
Now	110	-16.7%	?	51.5%	?

Source: FRED St. Louis



Source: FRED St. Louis

## US delinquency rates are climbing, but only gradually



Source: FRED St. Louis

Quarter	Delinquency Rate on Credit Card Loans	Delinquency Rate on Single-Family Residential Mortgages	Delinquency Rate on Consumer Loans	Delinquency Rate on All Loans	Delinquency Rate on Commercial Real Estate Loans (Excluding Farmland)	Delinquency Rate on Business Loans
Q2 2007	4.02	2.29	2.99	1.79	1.63	1.18
Q3 2024	3.23	1.73	2.73	1.50	1.52	1.16

Source: FRED St. Louis

## China has become what the Soviet Union was after WWII

It's quite remarkable that China has damaged or cut subsea cables in Taiwan<sup>4</sup> and Sweden<sup>5</sup> and a gas pipeline between Sweden and Lithuania in just the last 15 months, yet faced no consequences. At the same time in 2017, China has launched its first prototype Comac C919 aircraft that competes with Boeing 737 MAX and Airbus A320neo. Just a year later, Boeing 737 MAX had a fatal crash, followed by another fatal crash in 2019 due to software issues. China was the first air authority to ground the aircraft<sup>6</sup>. Boeing's most recent crash in South Korea again involved a Boeing 737 machine with suspicion that there was a problem with GE's engine<sup>7</sup>. In 2023, Comac C919 had its first commercial flight. Meanwhile, also in 2023, Airbus A320neo began facing delivery delays due to Pratt & Whitney's engine problems from contaminated powder metal<sup>8</sup>. After the Israeli pager attack, it feels possible that supply chains could be sabotaged elsewhere. In this case, it just feels odd that the two aircrafts that compete with China's Comac C919 suddenly appear to face multiple problems at the same time. I'd put the probability of China's involvement above 50%. The Ukraine invasion by Russia changed everything. China is no longer our friend and business partner and perhaps in 2025 we will see a more rapid de-coupling.

## Global North vs. Global South or 1<sup>st</sup> vs. 2<sup>nd</sup> & 3<sup>rd</sup> World?

When analysing the last three years of UK migration numbers<sup>9</sup>, it becomes clear that the vast majority of migrants are from developing or emerging countries, such as India, Nigeria, China, Pakistan and other Middle Eastern and African countries. Apart from China, these countries are what we used to call 3<sup>rd</sup> world countries during the Cold War, because they were neither aligned with the First World (NATO and allies) nor the Second World (Warsaw Pact, Soviet Union and China), and in terms of purchasing power were at the bottom of the world. Today, the 2<sup>nd</sup> and 3<sup>rd</sup> World are trying to unite as the Global South and create a new UN and World Bank/IMF equivalent with headquarters in China. The definition of the different groups (Global North vs. Global South or 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> World in this case) is very important, as it tells us the

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<sup>4</sup> <https://www.telegraph.co.uk/world-news/2025/01/05/chinese-ship-severs-undersea-cables-around-taiwan/>

<sup>5</sup> <https://www.france24.com/en/live-news/20241221-chinese-ship-linked-to-severed-baltic-sea-cables-sets-sail>

<sup>6</sup> <https://qz.com/1569865/china-grounds-737-max-8-after-ethiopian-airlines-et-302-crash>

<sup>7</sup> <https://www.reuters.com/world/asia-pacific/south-korea-extends-boeing-737-800-inspections-following-fatal-crash-2025-01-03/>

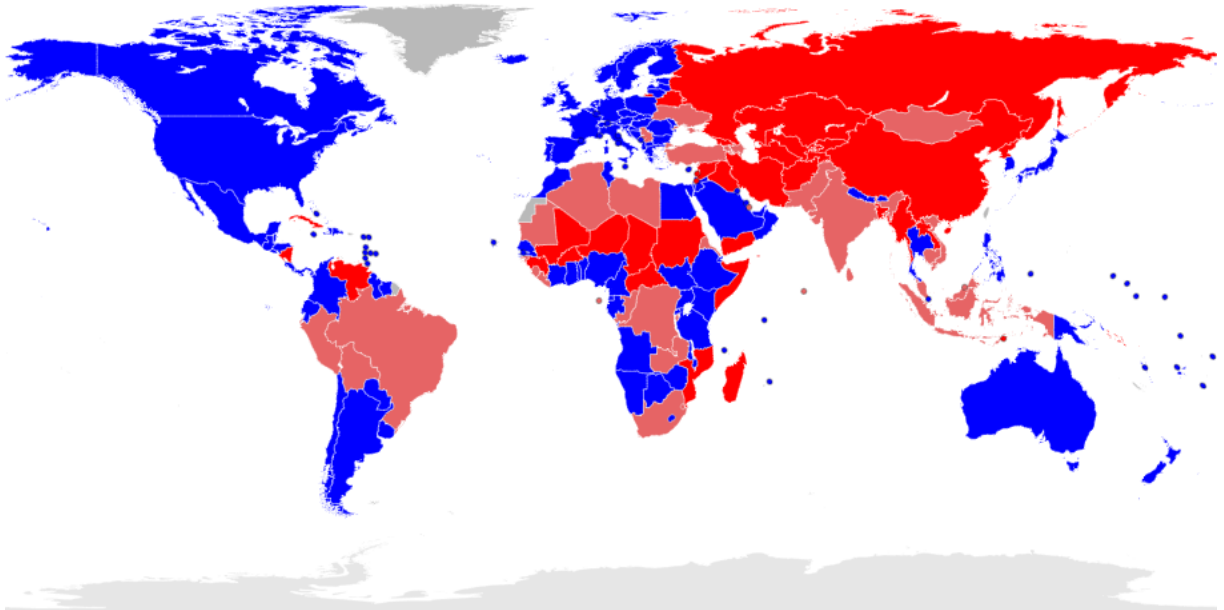
<sup>8</sup> <https://simpleflying.com/global-impact-pratt-whitney-engine-issues>

<sup>9</sup>

<https://www.aozorastep.com/The%20UK%20in%20crisis%20and%20what%20could%20be%20done%20to%20aver%20it.pdf>

ambitions countries strive for. Ultimately, I believe we will fall back to the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> World system or come up with a new system, as countries like India want to remain neutral.

World map of powers: blue states = West, red = Global South, light red = in between



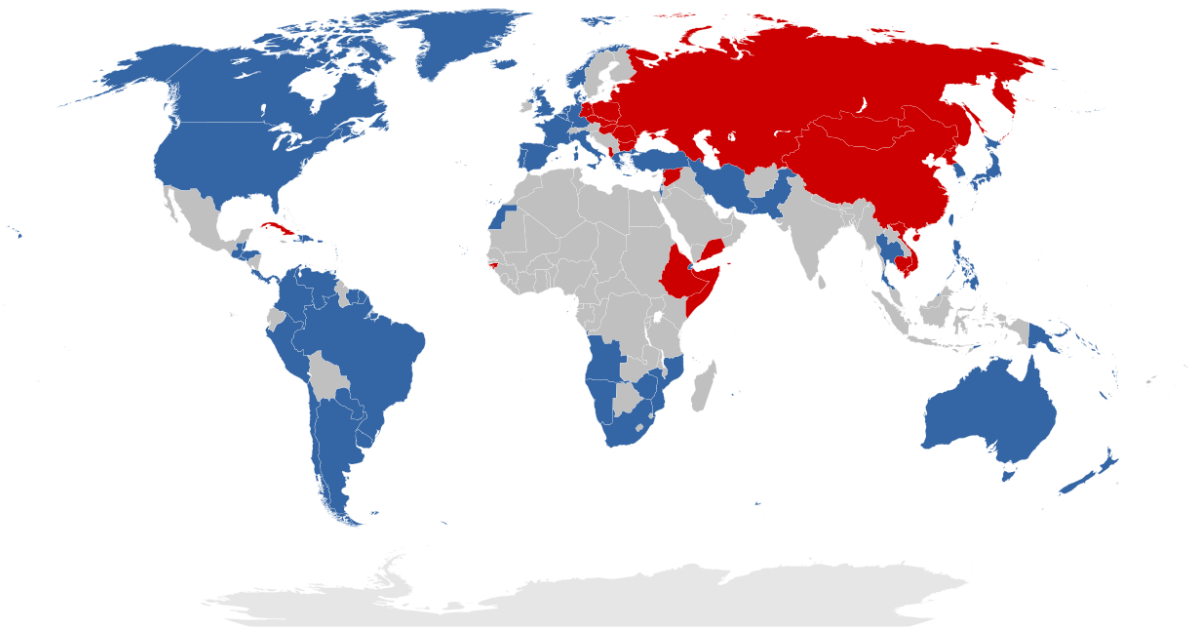
Source: geograf.in, own estimates, likely got a few countries wrong, purely indicative

World map of powers: Global North (blue) vs. Global South (red) with Russia displayed as blue



Source: Wikipedia, mapchart.net

World map of powers: First World (blue) vs. Second World (red) vs. Third World (grey)



Source: Wikipedia

#### **Q4 2025 could see a cliff edge in bank's funding and a jump in deposit demand**

Finally, the UK has experienced 0% GDP growth in recent months despite 1% population growth through migration<sup>10</sup>. A historic analogy of the 1976 sterling crisis could be suitable, when in 1972 the Conservatives passed a “spend for growth” budget<sup>11</sup>. Sounds familiar? The 2022 Truss Budget crisis was in the end averted, but similar to back in 1973 a rise in oil prices has quickly turned the British economy back downwards, resulting in a rapid depreciation of the pound against the dollar, which led to a \$3.9bn IMF bailout to stabilize the sterling<sup>12</sup>. A resignation of Keir Starmer could resemble the March 1976 resignation of Labour's Harold Wilson, which then led to the June 1976 sterling crisis. For now, it is good to keep these historic events in the back of one's mind, but do not expect a repeat in the very near future. Nonetheless, later in Q4 2025, nearly £70bn in TFSME matures (these are loans to banks that lend the money to small

<sup>10</sup>

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/julytoseptember2024>

<sup>11</sup> <https://onlinelibrary.wiley.com/doi/10.1111/j.1468-0270.2010.02028.x>

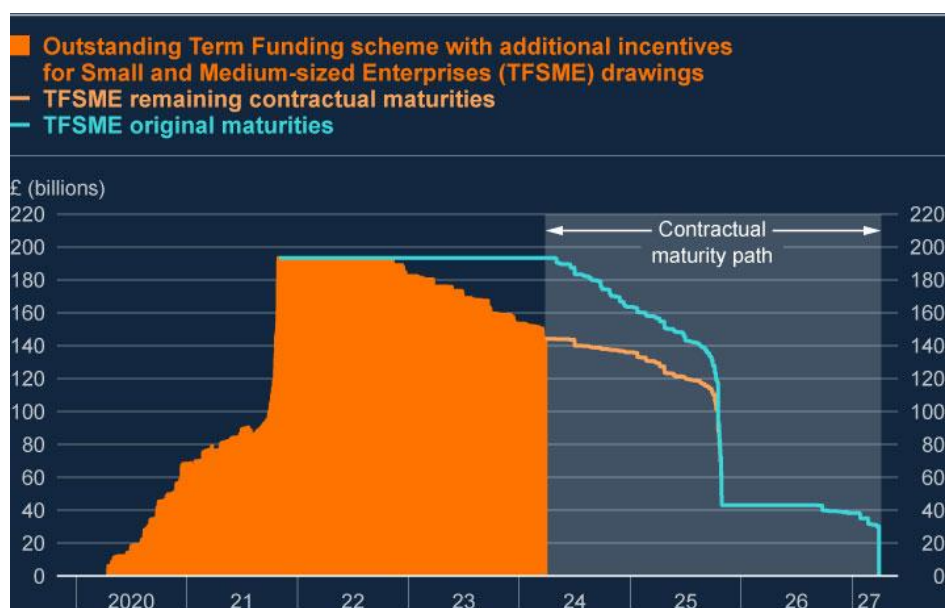
<sup>12</sup>

<https://web.archive.org/web/20210111103335/https://www.nationalarchives.gov.uk/cabinetpapers/themes/imf-crisis.htm>



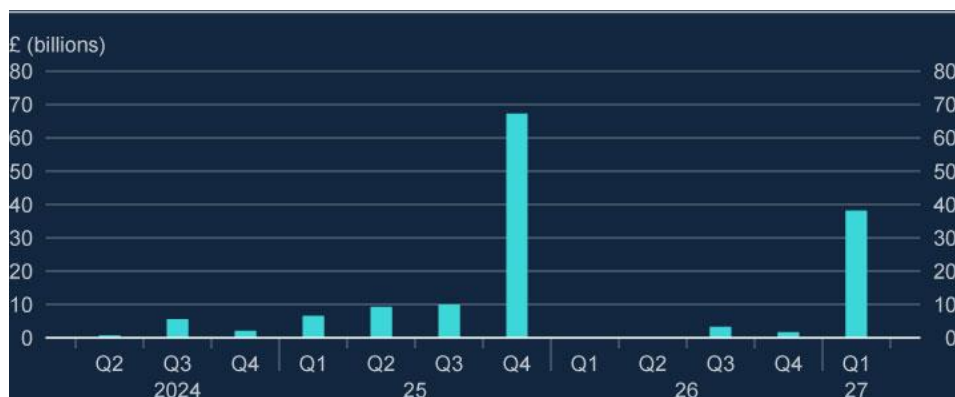
and medium sized enterprises). Many banks that lend to consumers, such as Secure Trust Bank, are looking to repay the outstanding TFSME loans by raising deposits. This could increase the demand for deposits and ultimately increase interest rates. On the other hand, the higher minimum wage from April 2025 could actually boost consumers spending power and some of Labour's policies, such as the requirement for councils to increase affordable housing could surprise the market to the upside. Despite the headwinds, the near-term could turn out to be less gloomy for the UK than everyone fears.

### TFSME is unwinding

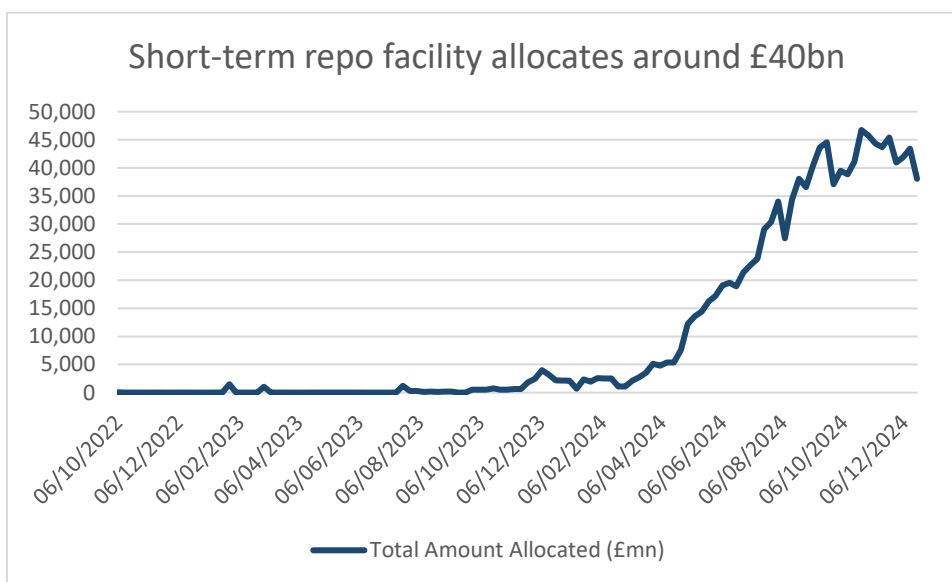


Source: <https://www.bankofengland.co.uk/sterling-monetary-framework/report-2023-24>

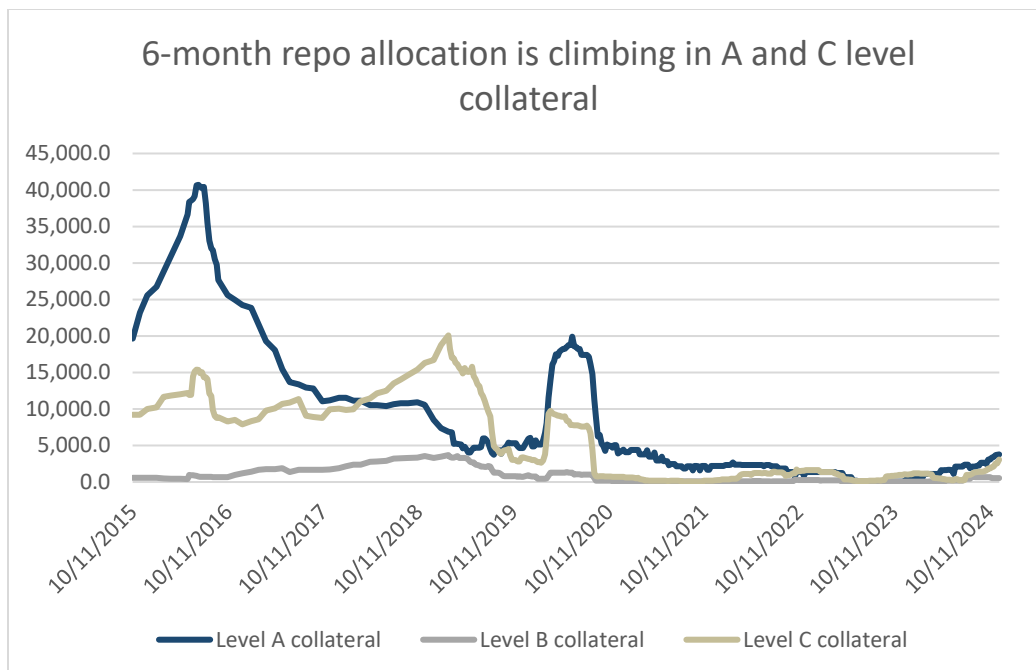
### TFSME repayments by quarter



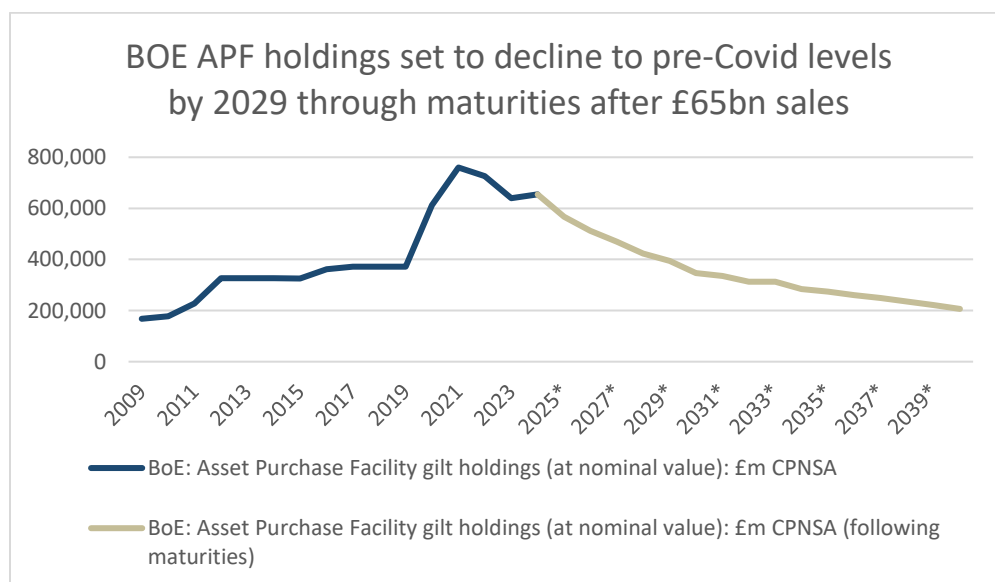
Source: <https://www.bankofengland.co.uk/sterling-monetary-framework/report-2023-24>



Source: <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data>



Source: <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data>



Source: <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data>

## Performance

2024 has been my worst performance since 2018 and the first negative year since 2018. It's worth reviewing this poor performance by singling out the largest positions over the year: It all started out with a vast number of opportunities in February 2024, where I concentrated on the position in Nexxen International ([here](#), [here](#)). Whilst all other opportunities I was keen to participate in, such as Reach plc and Synthomer plc (and later Future plc) saw rapid revaluations after trading updates, Nexxen initially lost market cap. By mid-2024 antisemitism reached new highs, and some investors began reducing their stakes in some Israeli-related companies. I was worried that some of their customers might form an antisemitic stance and stop working with them, especially as the company recently rebranded, and I exited the position with a gain that was just 10% and much smaller than anticipated ([here](#)). This was a mistake. Then, I concentrated on Oil States International and was up 30% after the results in the summer ([here](#)). However, immediately afterwards the August volatility event happened ([here](#)). I did not have a strong view on whether Trump will win the presidency, hence did not plan to hold the position too close to the US election. This led me to exit the position with a mere 12% gain after the volatility event ([here](#)). Ahead of the US elections and the UK Budget, I then wanted to be market neutral and bought reinsurer Conduit Holdings ([here](#)). Right after I bought, I received a gift from god with a 1-month period of no hurricane during the peak of hurricane season in August/September. Yet, despite all other reinsurers gaining 10-20%, Conduit was flat! When some larger hurricanes then appeared and the market speculated on lower renewal rates, I exited the position roughly flat and stayed largely in cash ahead of the UK Budget ([here](#)). However, valuations did not decline, as I expected, and I struggled to re-enter the market as the budget was overall negative. Whilst I believed that natural gas prices could spike given a colder than usual start of the winter and attractive valuations, I also feared that Trump would strike a deal with Putin to end the Ukraine war. I had some short-term positions in Centrica and Direct Line Insurance (the latter was acquired by Aviva with a >60% premium one week after I sold. The reason I sold was because the results were slightly disappointing and I feared the EV mandates could increase used car prices – another mistake). Then, I settled for biotech PureTech Health, which clinical trials were not negative, but not massively positive either ([here](#)). The market reaction was so muted that I decided to exit the position with a -6% loss ([here](#)), as there was uncertainty over when the next clinical trial results would be published and their desire to raise equity in the US and move the listing there. This year was really a year where the macro was not clear cut for me, oftentimes had 50/50 outcomes that made it difficult to align with certain events.

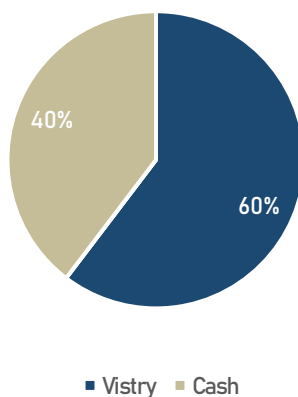
Finally, I then saw the perhaps biggest opportunity, at least on paper: Affordable homes and build-to-rent housebuilder Vistry Group. More on that below.

#### Current Holdings

Company	Average Purchase Price	Current Market Price	% change
Vistry Group	6.44	5.72	-10%
Cash			

As of 31<sup>st</sup> December 2024

#### Current Holdings in % of Portfolio



As of 31<sup>st</sup> December 2024

## Entry Vistry Group

The equation for housebuilders appeared very simple: 1. Record UK population growth through 3<sup>rd</sup> world country migration driving record demand for affordable housing<sup>13</sup>. 2. A government that seeks to increase the annual home building target by 20-40% to >300k pa, led by affordable housing. 3. Vistry's valuation was down 50% in two months largely amidst a one-off building cost miscalculation. More details [here](#) & [here](#). But I made one important mistake: The housing associations that oftentimes buy the buildings from the developers are facing a cash crunch due to largely inflationary and regulatory reasons ([here](#)). This has led to slower payments, slower completions and importantly, slower starts. Affordable housing starts have now reached an 8-year low and it is expected that this will get worse before it gets better. The government really needs to make a choice now: Opt for growth and increase funding for affordable housing further or continue at zero % GDP growth, which is negative growth in reality given that the population is growing at around 1%. When Starmer was asked what could drive growth, he answered simply that housebuilding creates growth. Although the macro is generally positively aligned, there is a danger of higher interest rates, impacting the open market, and a decline in Section 106 affordable housing developer contributions by registered providers (RP), which are generally housing associations<sup>14</sup>, as well as less attractive pricing for housebuilding projects in the partnership model<sup>15</sup>. However, despite the £100mio one-off profit impact in 2024, Vistry trades at 12x EV/Free cash flow (8x without the £100mio one-off) and with a 13% discount to tangible NAV incl. net debt, which is attractive, especially when the government succeeds in increasing the affordable housing buildout.

## Outlook

In 2024, I have explored too many opportunities. This has led to more volatile decision making, as I had so many backups when something didn't immediately work out. The large number of elections also increased the number of possible outcomes, which won't be the case in 2025. In the end, I'm at a point where the amount of capital I manage is too small. This is why I have joined iConnections with the target to manage more capital to pursue these opportunities. The Labour government can only succeed if their 1.5mio home delivery goal is at least nearly matched. This is why I remain convinced that Vistry via

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<sup>13</sup> <https://www.gov.uk/government/statistics/social-housing-lettings-in-england-april-2023-to-march-2024/social-housing-lettings-in-england-tenants-april-2023-to-march-2024>

<sup>14</sup> <https://www.hbf.co.uk/research-insight/bid-farewell/>

<sup>15</sup> [https://otp.tools.investis.com/clients/uk/bovis\\_homes2/rns/regulatory-story.aspx?cid=1525&newsid=1896277](https://otp.tools.investis.com/clients/uk/bovis_homes2/rns/regulatory-story.aspx?cid=1525&newsid=1896277)

affordable homes could turn into a strong turnaround, as this is the only way GDP can grow again. I have also bought JD Sports (note to follow), because of very attractive fundamentals (8-9x EV/Free cash flow after growth capex) and a consumer that remains in good shape. There are also other opportunities lurking with, for instance, Hunting and Synthomer. In the case of Hunting, I expect the valuation to cheapen on their trading update on 14<sup>th</sup> January. Synthomer could become attractive towards February/March before they issue their respective trading update.

Sincerely,

A handwritten signature in black ink, appearing to read 'Herrmann'.

David Herrmann



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