Tribe IMPACT CAPITAL

CIO update - Q4 2024

Investment update

- Trump wins US election and control of the Senate, securing a decisive mandate to enact his policy plans.
- Germany's three-party coalition collapses, increasing Europe's political uncertainty alongside France's leadership challenges.
- UK's high wages and inflation prompt fewer predicted rate cuts in 2025 despite stagnant economic growth.

MACRO OVERVIEW

Trump's US election victory in November capped a year of voter backlash against incumbent governments worldwide. In the final tally, Trump narrowly won the popular vote claiming 2.3 million more votes than Kamala Harris and only 49.8% of all votes cast.[1] His Republican party secured control of all three branches of government, flipping three Senate seats, and continue to benefit from a conservative majority in the Supreme Court. Markets expect a pro-business agenda, driving US stock gains and a surge in the value of the US dollar. Tesla, heavily linked to Trump supporter Elon Musk, accounted for a third of the S&P 500's gains during the quarter. Cryptocurrency markets also rallied, as supporters predict the newly elected president might pass targeted policies favouring the market.

In contrast to the US stock market, the US government debt market faced challenges. Inflation fears resurfaced despite the Federal Reserve's (Fed) 50-basis-point rate cut. We believe Trump's proposed tax cuts, trade tariffs, and deportation policies could further stoke inflation by keeping upward pressure on prices. Yields on 10-year US treasuries rose significantly throughout the quarter, which reflects caution from investors, as yields move inversely to prices.

Europe's political instability deepened and spread during the quarter. Germany's coalition government collapsed, triggering February elections, with opinion polls predicting defeat for Chancellor Scholz's Social Democratic Party (SPD). Meanwhile, France faces a political vacuum until mid-2025, when elections are permitted. This will challenge the EU's leadership and ability to address major challenges, including the ongoing Russia-Ukraine conflict, where Trump is likely to engage heavily with European powers.

In the UK, inflation and wage growth picked up while economic growth stagnated. September's long-awaited budget disappointed business leaders, particularly the rise in employers' national insurance contributions. Concerns about stagflation grew - which is an economic cycle that experiences slow growth, high unemployment and rising prices all at once. This drove a sell-off in UK government bonds. Yields on 10-year bonds rose over 50 basis points in the quarter, ending the year nearly 100 basis points higher. This increase will strain government finances, raising debt servicing costs and tightening its already limited fiscal flexibility.

1 NBC News. (December 2024). 2024 President Results.

Impact update

- Biodiversity COP 16 in Cali, Colombia delivered mixed outcomes, with ramifications for global healthcare.
- COP 29 in Baku makes some progress on financing, but key challenges remain unresolved.
- Intergovernmental Negotiating Committee on the Global Plastics Treaty (INC-5) finished without reaching a deal, pushing negotiations into 2025.

THIS QUARTER

At the biodiversity COP (Conference of the Parties) in Cali, Colombia, efforts to create a new global fund and a monitoring framework for biodiversity loss stalled, with discussions pushed to February 2025. Only 44 of the 196 countries represented in Cali submitted new biodiversity plans by the summit's end, signalling limited progress.[1] However, there was agreement on the "Cali fund," a fund designed to return some of the proceeds from the use of biodiversity to protect and restore nature where help is needed most.[2] Companies in industries that profit from biodiversity through their use of genetic information from nature (also known as digital sequence information or DSI), like pharmaceuticals, biotechnology and cosmetics, are encouraged to contribute a portion of their profits or revenue linked to biodiversity to the fund.[3] This fund creates opportunities for impact investors to support forward-thinking healthcare companies addressing biodiversity challenges.

COP 29 in Baku, Azerbaijan, dubbed the "finance COP," saw developed nations pledge $300 billion annually by 2035 to help developing countries tackle climate change—far short of the $1.3 trillion requested.[4] A broader commitment to raise $1.3 trillion per year from a range of public and private sources by 2035[5] sparked frustration from developing nations that are already facing severe impacts of climate change, but highlighted the growing role of private finance in climate solutions. This shift opens pathways for investors seeking impactful opportunities in climate transition and mitigation.

Meanwhile, the 5th session on a Global Plastics Treaty in Busan, South Korea ended without a deal, exposing stark divisions and pushing negotiations into 2025. Nearly 100 countries advocated for phasing out plastics with legally binding targets, while oil-producing nations stalled negotiations with warnings that this could impact the world's development.[6] These negotiations underscore the urgency of a circular economy and the investment potential in businesses leading the way with innovative, sustainable solutions.

1 World Resource Institute. (November 2024). UN Biodiversity Talks Stalled, but Protecting Nature Cannot Wait.
2 United Nations. (November 2024). Biodiversity COP 16: Important Agreement Reached Towards Goal of "Making Peace with Nature".
3 Ibid.
4 World Economic Forum. (November 2024). Climate finance, carbon markets and more: 4 key takeaways from COP29.
5 Ibid.
6 Plastic Pollution Coalition. (December 2024). UN Plastics Treaty Talks in Busan (INC-5) End With No Agreement, But Plan For INC-5.2.

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ASSET CLASS PERFORMANCE AND POSITIONING

Ahead of the US election, we selectively increased our exposure to the US dollar and large cap equities. Overall, we remain underweight to US equities because very few of our fund managers consider US large caps, especially the magnificent 7 technology companies,[2] to be within their investible universe given the material impact risks they bring.

We have also reduced fixed-income allocations and interest rate sensitivity, reflecting our view that aggressive rate cuts in the US and UK are less likely to happen in 2025.

2 Alphabet (Google), Amazon, Apple, Meta Platforms (Facebook), Microsoft, Nvidia, Tesla

STEWARDSHIP ACTIVITIES

Women make up just 14% of fund managers globally[7] –a figure unchanged for 20 years, despite extensive research showing that greater diversity is linked to better performance.[8] This lack of progress across the asset management industry is holding back its potential.

In response, we launched a project this year to address diversity practices within the financial sector. To start, we surveyed our own fund managers to understand how they approach diversity within their teams. Using Nasdaq's eVestment diversity questionnaire, we asked 22 firm-level and 7 fund-level questions about diversity practices and outcomes.

The results revealed a major obstacle: a lack of measurement and disclosure. Only 52% of surveyed funds shared gender diversity statistics for their portfolio management teams, and just 33% provided racial diversity data.[9]

Improved data disclosure is critical in order for us to best push for greater diversity in asset management teams. To drive this, we shared our findings with the Principles for Responsible Investment (PRI) Wealth Manager group in Q4, urging other wealth managers to support greater transparency across the industry. Our efforts were met with interest, and we are excited to build on this engagement in 2025, working towards meaningful change.

7 Plan Adviser. (April 2021). Number of Women in Asset Management Roles Remains Stagnant.
8 The Vanguard Group, Inc. (March 2022); WTW. (October 2020); Harvard Business Review. (August 2018).
9 Tribe Impact Capital, internal data

Outlook for Tribe's portfolios

We expect the first quarter of 2025 to offer plenty for investors to consider, and overall, we are optimistic about equities heading into the year.

Trump's policy vision for his second term will become clearer in the coming months. This coincides with falling US recession risks, supported by strong economic data and expectations of a more business-friendly regulatory environment. While equity valuations appear high overall, this is driven largely by mega-cap technology companies like the magnificent seven. Excluding these, valuations for other firms seem more reasonable compared to historical levels, with earnings growth forecasts remaining strong.

Expectations for growth in Europe and the UK remain modest, but this could present opportunities for improvement. The outcome of Germany's upcoming election may pave the way for new leadership to prioritise expansionary fiscal policies, which could provide a boost to the wider European economy.

While Trump's tariff threats introduce some uncertainty, we predict Europe will use the tools at its disposal, like higher defence spending, to mitigate potential impacts and strengthen ties with the US, which could reduce the likelihood of trade tariffs. The resolution of the Russia-Ukraine conflict, though complex, also holds promise for restoring stability and fostering economic recovery in the region.