Portfolio Manager Monthly Insights

Seizing Opportunities Amid Market Volatility: A Strategic Investment Outlook for April 2025

We are excited about the opportunities in the market as we write this commentary. I believe Buffet said be "greedy when others are fearful". We just went through a significant sell-off in equity markets after "Liberation Day" as many levered strategies and hedge funds were forced to liquidate positions, accelerating the down draft in many stocks.

As global recession gets priced into securities in different markets, we are finding great opportunities for the long term. The compelling opportunities are in three areas: US banks, technology and European industrials.

Ever since the global financial crisis, the US banks have been scrutinized heavily and had to deal with moving targets in term of capital requirement. Thus their valuation has been held back. We believe that in a new era of deregulation under Trump, where banks can have regulation that is transparent and capital rules that no longer constantly move, their returns can increase leading to higher valuation.

Technology shares have suffered a significant pull back over the last quarter. However, according to our research, AI development and user cases continue to gain traction. We are now able to find tech stocks with significant growth potential trading at very compelling valuation. Some of the names we like include Western Digital and Salesforce. Our tech stocks as a group trade at 10.7X P/E weighted average. Let me share two ideas we really like:

Western Digital trades at sub 6x P/E. It makes hard drives and has a 50% market share (Seagate has the other 50% market share). Demand for data storage has increased materially due to AI. Western Digital is a great way to get exposure to AI at a significant discount to the market. Hard drives are 6x cheaper than solid state drives to store the same data, and hence the value proposition is very attractive. Hyperscalers don't generally delete data, so demand for hard drives will continue to grow inline with data generation trends.

Salesforce (CRM) trades at a discount to its discounted cash flow model value, with a P/E of 20X which is dirt cheap for a growing cloud software company. This big discount for a recurring subscription revenue business does not fully account for its compounding growth and margin expansion opportunities. Salesforce is poised to be one of the first enterprise software companies to benefit from enterprise AI adoption, thanks to its clean and organized data and integrated AI agents in Sales and Service offerings. Our position in Salesforce was initiated in 2022 when the stock dropped from $300 to the $150s, presenting a great entry price then. Today's market gives us another great entry price as the stock pulls back from $340 to $240 this time.

Moving onto outside the U.S., Germany recently announced a massive multi-year stimulus plan, and removed their self-imposed fiscal budget restrictions. This is a generational change. Despite this announcement, the market is taking a wait-and-see approach, and in fact sold off European cyclicals as part of the tariff capitulation trade. We believe European industrials offer great opportunities long term. We like Siemens and Alstom in terms of valuation as well as growth opportunities.

Siemens is the largest industrial conglomerate and also the largest industrial software company in the world. The company is a leading provider of automation and electrical equipment, as well as passenger trains and imaging devices through its 75% ownership of Siemens Healthineers. Siemens stands to benefit from long-term trends such as manufacturing automation, the growth of AI data centers, and the push for decarbonization. We believe the current stock price does not fully account for the value of its stake in Healthineers. As management moves toward spinning off Healthineers to investors, we expect the stock price to rise. It is also poised to benefit from German fiscal stimulus. At P/E of 15X this stock is a steal.

Alstom is the world's largest rail car company, generating annual revenues of €18 billion. The company stands to benefit significantly from the global push toward decarbonization, electrification and digitization in mass transit, as well as Germany's investment plans for its rail infrastructure. Recently, Alstom raised equity to reduce its debt and is on track to achieve solid revenue growth along with margin expansion. As the company works to deliver order book at higher margins, we believe investors will reward the stock with a much higher valuation multiple.

At the time of writing (April 7th), after multiple days of risk-off pull back, we have not felt this good about the investment opportunities we see, since the early days of post-Covid vaccine discovery. We are finding quality companies with huge recovery potential at current prices, and have initiated new positions in multiple new holdings as they come into our valuation range with clear catalysts. We believe the outrageous tariff rates are the starting bargaining positions for the Trump administration. There could be some more short term volatility, but with a long term perspective, current prices have presented significant bargains. The lead Cundill portfolio manager Richard Wong has put his entire bonus from last year into the two Cundill funds over the last two weeks and continues to add to them as of this week. The Brexit drawdown of mid 2016, the yield curve inversion drawdown of late 2018, and the Covid outbreak drawdown in 2020 were all great entry points to buy value stocks. Now we believe we are presented with another great entry point in April 2025.

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