

ODIN USA NOK 28/02/2025

The fund has share classes in SEK, NOK and EUR: A, B, C, D, D2, F, G, H, I and J

FUND COMMENTARY

The American stock market experienced weak performance throughout February. At the beginning of the year, there were high expectations for earnings growth for American companies, and analysts expected the earnings of the S&P 500 to increase by 15 percent in 2025. These estimates have now come down to around 12 percent. However, the long-term trend for earnings growth for American companies is between 6 to 7 percent. Earnings growth can, of course, be higher in individual years and higher over longer periods, but over time it is difficult for companies to defy gravity and deliver earnings growth far beyond the underlying growth of the economy as a whole. Last month, we wrote about how most companies in the fund reported good earnings development. This continued through February. The major technology companies such as Microsoft, Alphabet, and Amazon delivered quite good numbers but were penalized in terms of stock price, partly because they did not deliver "good enough" relative to expectations.

At Odin, we look for resilient, predictable, and robust business models. What does this mean in practice? We prefer to invest in industries with an attractive market structure, stable demand for the products offered by the company, absence of competition, and high entry barriers. Resilience means that there are no major changes in demand for the company's products, combined with a strong competitive position. This can be described as structural advantages. This means that there are some structural aspects of the competitive dynamics in the relevant industry that invite companies to establish market power. In a 2010 research article, Robert Novy-Marx argues that the purest form of economic profitability materializes in high gross profitability. Good companies operating in attractive industries have the advantage that there are rarely major changes in the underlying market from year to year. Market power further provides the framework for the company to dictate relationships with customers and suppliers. It gives bargaining power. In practice, this means that companies have a greater ability to influence the prices charged to customers and the input costs paid to suppliers. The advantage of such companies is also that it is the customers or suppliers who bear the cost of negative economic shocks, not the company with the established strong market position.

An example of such a shock is inflation, which has been a recurring issue for the economy and companies in the aftermath of the pandemic. Companies without pricing power must absorb this cost to a greater extent themselves. Good companies, with a strong position in a structurally attractive market, more often have pricing power and thus can pass this price increase on to the customer or achieve scale against suppliers. An example is S&P Global, where half of the earnings come from credit ratings. In January 2008, the price of a credit rating was up to 4.25 basis points with a minimum price of \$67,500, while for January 2025, it was up to 8.1 basis points with a minimum price of \$145,000. This means that the minimum price has increased by 4.6 percent over the period, while inflation in the USA, according to the U.S. Bureau of Labor Statistics, has been 2.4 percent over the same period. This is pricing power in practice.

During February, we sold our position in the American e-commerce platform Etsy. Etsy has been a disappointing investment for us. The company has not been able to capitalize on the strong position it built during the pandemic. Normalization of consumption, leading to lower demand for discretionary consumption and tougher competition from both Chinese and American competitors, has created tougher conditions for Etsy.

Managers:



Robin Øvrebø



Harald Nissen

Why invest in this fund?

ODIN USA provides good exposure to a dynamic American business community. In the USA, we find many good companies in several different industries.

A large domestic market gives American companies scope to grow big and achieve high profitability. In the US market, we also find companies that are global leaders in their industry.

How is the fund positioned?

ODIN USA is positioned around companies with strong competitive advantages and a good basis to grow bigger over time. The fund invests in companies that have the potential to deliver revenue growth more than the average growth in the market. Profitable growth creates value, and these companies' value creation drives share prices over time. The fund is well diversified and is composed of companies with well-established business models in industries with good long-term growth prospects. The companies are financially strong and are led by managers who can take a long-term view.