

FUND COMMENTARY

Tariffs, War, and TACO

So far, 2025 has primarily been a year where the news cycle and equity markets have been dominated by Trump's trade policies and geopolitical unrest.

Early in his presidency, Donald Trump followed through on his threats to take drastic measures to rebalance global trade in favor of the United States. It began as early as February, with tariffs on goods from neighboring Mexico and Canada, and increased tariffs on Chinese imports. On April 2, he sent markets sharply lower by announcing sky-high tariffs on goods from nearly every other country—some as high as 50 percent. It wasn't just the equity markets that reacted negatively to what Trump called America's "Liberation Day." The bond market sent U.S. borrowing costs soaring, concerned that higher tariffs would lead to stagflation—slower economic growth combined with rising inflation.

Even Trump realized that fighting the "almighty" bond market was a losing battle, and he subsequently announced a 90-day pause on the new tariffs. This marked the beginning of what has become known as the TACO trade. TACO stands for "Trump Always Chickens Out." Over time, markets observed that negative reactions to Trump's tariff threats were quickly reversed when he backed down and chose to delay or reduce the tariffs. At one point, the S&P 500 was down as much as 15 percent from the start of the year but ended the half-year up 6 percent (measured in USD).

Just as markets began adjusting to a world of constant tariff threats from Trump, the ongoing conflict in the Middle East escalated. On June 13, Israel launched an attack on Iran, primarily targeting Iranian nuclear facilities and high-ranking military personnel. On June 21, the conflict took a new turn when the U.S. bombed three of Iran's nuclear sites. Fears of escalation and disruptions to oil supply were significant at times, but at the time of writing, it appears that the U.S. show of force was enough to convince Iran that full-scale war is not in its interest.

Europe's Turn at Last?

Trump seems either unaware or unconcerned that higher tariffs on imported goods primarily hurt American consumers, who ultimately bear the cost through higher prices. The equity market, however, has taken this into account. After many years of U.S. equities outperforming European ones, the trend has reversed this year. While the S&P 500 is up 6 percent year-to-date, the broad European STOXX 600 index has risen 9 percent (measured in euros). Germany's DAX index is up a full 20 percent, and Italy's FTSE MIB has also gained 20 percent. Additionally, we've seen a significant weakening of the U.S. dollar—down more than 12 percent against the euro.

This is not solely due to higher tariffs. Markets are also increasingly concerned about the U.S.'s massive national debt. Today, U.S. interest expenses exceed the country's total defense spending. For decades, confidence in the U.S. economy and the dollar's role as the world's reserve currency has enabled the U.S. to consume more than it produces. The ever-growing budget deficit, combined with President Trump's erratic economic policies, increases the likelihood that the U.S. will be forced to tighten fiscal policy—or inflate away its debt. Both scenarios are negative for the U.S. economy and the dollar.

What about Europe? Why have European equities performed so well, and can we expect this to continue? Much of the rally in European stocks likely stems from a growing recognition of the need to diversify portfolios away from the U.S.

Signs of Positive Change in Europe

At the same time, we are seeing signs of positive developments in Europe. The German government's plans to ease strict debt limits and invest €500 billion in national infrastructure are expected to boost both German and European economic growth.

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Why invest in this fund?

ODIN Global is an index-independent fund with no restrictions on geography, sectors or company size. ODIN Global is managed according to a disciplined and proven investment philosophy. The fund focuses on long-term ownership in quality companies that can grow profitably over time without taking on too much debt. ODIN Global has a concentrated portfolio and deviates widely from the index.

How is the fund positioned?

The size of the fund enables investments in smaller companies. We believe in excess returns in small high-quality companies, so a large proportion of the fund is invested in these. As well as positioning the fund for strong and predictable growth drivers, acquisitions are a key value driver for many of our decentralized business models. We have also invested in a set of large companies with unique global market positions in markets with predictable growth.

European governments' growing recognition of the need to invest more in their own defense has contributed to a sharp rise in European defense stocks. Defense companies, along with stocks in construction, infrastructure, and banking, have been the main drivers of European equity markets this year. In contrast, the technology sector has seen more modest performance. Europe still has a way to go before it can compete with the U.S. in the most dominant areas of technology.

Looking Beyond the Noise

When the world is hit by potentially dramatic economic shifts and significant geopolitical unrest, it may seem dismissive to refer to it all as "noise." However, what is often amplified in the media with dramatic headlines tends, in the long run, to have limited impact on equity market performance. It often leads to sharp fluctuations driven by short-term market participants. These actors sell off in anticipation of bad—or worse—news, only to re-enter the market once the worst has passed and the news flow becomes incrementally more positive.

Meanwhile, companies continue to operate. Demand may fluctuate from quarter to quarter, often in line with customer uncertainty during uncertain times. But the value of a company is not based on quarterly demand. It is based on the company's competitive advantages and its ability to generate returns on its investments over time. This creates cash flows that can be distributed to shareholders or reinvested in business to generate even greater cash flows in the future.

What is truly worth monitoring are factors such as how technological developments, strategic decisions - good or bad - or aggressive competitors affect a company's competitive strength. And not least, how the market is pricing a stock at any given time. Are expectations high or low? Is the market accurately valuing the company's business model, or is it underestimating the future cash flows the company can generate?

Looking at the fund holdings that have experienced significant price movements so far this year, these have largely been driven by company-specific or sector-specific developments, rather than by noise in the news cycle.

What has driven the Fund's Performance This Year?

The fund's negative return in the first half of the year is primarily due to currency movements—particularly a weaker U.S. dollar. The fund underperformed its benchmark slightly. We benefited from our underweight in U.S. equities, but our European holdings did not fully keep pace with the broader European market. This was due to the performance of individual companies in the portfolio, as well as a lack of exposure to defense stocks, banks, and construction and infrastructure sectors in Europe.

Top Contributors to Fund Performance

Despite the weaker U.S. dollar, the fund's top contributor so far this year is an American company. Verisign, which manages the .com and .net internet domains, was added to the portfolio in the autumn of 2024 at what we considered a very attractive valuation. Verisign operates with high margins and requires very little capital to grow, making its growth highly profitable. The market has taken notice of it, and the stock has risen by over 50 percent since we added it to the fund.

The second-best contributor is the British specialty insurer Beazley. Beazley has demonstrated strong discipline in focusing on the most profitable insurance segments while being cautious in areas where pricing does not adequately reflect risk. This has resulted in consistently high profitability. In its latest quarterly update, the company guided for a combined ratio of around 85%. We still view the stock as undervalued and have allocated 4.5 percent of the funds' capital to the company.

British company Halma is also among the top three contributors. Halma delivered exceptionally strong results last quarter, particularly in one of its opto-electronics business segments, which is experiencing significant growth. Halma follows an acquisition-driven model and has built a strong portfolio of niche companies across sectors such as healthcare, safety, environmental monitoring, and analytical equipment.

Negative Contributors

The list of negative contributors is again heavily influenced by currency movements. Among the companies worth highlighting are Novo Nordisk, Bunzl, and Thermo Fisher.

We added Danish pharmaceutical company Novo Nordisk to the fund in November last year after the stock had declined more than 30 percent from its peak. Novo holds a strong position in the obesity medication market but has faced challenges in the U.S., where certain players were temporarily allowed to sell generic versions of its drugs. Regulators permitted this due to Novo's limited production capacity, which was deemed insufficient to meet market demand. As of May 22, the sale of generics is no longer permitted. While we believe the market was overly optimistic when Novo's share price reached NOK 1,000 in early 2024, sentiment has now swung too far in the opposite direction. The obesity drug market is enormous, and Novo is well-positioned with both its current portfolio and pipeline.

U.S.-based Thermo Fisher, which provides equipment and services for diagnostics and pharmaceutical R&D, experienced unusually high earnings during the COVID-19 pandemic and has struggled to grow from those elevated levels. The normalization of demand has taken longer than expected. While the company has resumed growth, activity in many of its end markets remains below normal.

Over the long term, we remain confident that medical research and drug development are growth industries, and Thermo Fisher is one of the sector's key suppliers with strong market positions.

British company Bunzl, a distributor of everything from disposable cutlery to safety equipment, grows by consolidating customer purchases—hotels, retailers, and restaurants increasingly source from Bunzl rather than multiple suppliers. The company also acquires small, privately owned distributors. In April, Bunzl reported that operational changes in its North American business had negatively impacted customer satisfaction and, consequently, demand from certain customer segments. As a result, it lowered its earnings guidance for 2025, and the stock was heavily penalized. We believe the issues are temporary but will monitor the company closely to ensure that things are moving in the right direction.

Artificial Intelligence

While much of what dominates the news cycle can be considered noise, certain trends and technologies are structural in nature - meaning they are likely to have a lasting impact on the economy and, in particular, on the dynamics and competitive landscape of specific industries. Artificial intelligence (AI) is one such technology. We are convinced that AI will increasingly take over tasks currently performed by humans, leading to significant productivity gains over time. However, there is considerable uncertainty around the pace of this development and exactly who the winners and losers will be.

We hold shares in Microsoft, Amazon, and Alphabet. These so-called “hyperscalers” have invested enormous sums in data centers used to train AI models and run AI applications. It is highly likely that many of the AI solutions of the future—both for consumers and businesses—will rely on the computing power and data services provided by these companies.

In addition, we have added two new companies this year that are also strongly exposed to the AI value chain: Taiwan's TSMC and U.S.-based Applied Materials. TSMC is the dominant manufacturer of advanced semiconductors, including GPUs designed by Nvidia. Applied Materials supplies much of the equipment TSMC needs to produce these chips. With these investments, we are backing two companies with strong and well-established market positions that stand to benefit from the growth of AI and the broader semiconductor industry, while being less dependent on which specific chip technologies ultimately prevail.

From Checkbooks to Modern Payment Solutions

Another new addition to the portfolio this year is U.S.-based Corpay.

Originally a provider of fuel cards, Corpay now offers a wide range of services, including payments for hotels, tolls, and digital solutions for domestic and international invoice payments. The company helps streamline and automate payment processes, giving customers better control, cost savings, and reduced fraud risk. Especially in the U.S., where many businesses still pay invoices by check, Corpay's solutions represent a significant modernization. Its virtual payment cards are a key competitive advantage, and the company's network includes over one million suppliers—more than twice as many as JPMorgan.

Corpay has a strong financial track record. Since its IPO in 2010, the stock has delivered an annual return of 18 percent. Over the past decade, the company has achieved average annual revenue growth of nearly 13 percent and free cash flow per share growth of 14 percent. Given the company's quality and growth prospects, we find the valuation attractive, with a P/E of 16 and a free cash flow yield above 6 percent.

Corpay complements our largest holding in the sector, Visa, and gives us even greater exposure to the digitalization of payments in the corporate segment.

When Do We Sell?

To make room for new companies in the portfolio, we must also sell existing holdings. In simple terms, there are three main reasons we sell a company. One is if something material has changed—either externally, weakening the company's competitive position, or internally, such as management decisions that cause us to question the company's ability to create value. Another reason is if we conclude that our investment thesis was wrong—perhaps the business model turned out to be riskier than we initially believed, or the management team was not of the caliber we expected. The third reason is valuation—if a stock becomes too expensive. Often, overvaluation occurs when the market extrapolates current performance far into the future. In such cases, there is a high risk of price correction if the company returns to more normal performance after a period of exceptional results.

We have sold four companies this year: Irish distributor DCC, Swedish acquisition-driven company Lifco, French software firm Dassault, and U.S. e-commerce platform Etsy. DCC is an example of a company where things have changed. It has shifted from acquiring undervalued companies across sectors like energy, healthcare, and technology, to focusing solely on energy. Moreover, it has moved from buying clearly undervalued businesses to acquiring renewable energy companies, which are more expensive and, in our view, have weaker competitive positions - significantly increasing the risk in the business model.

Lifco, Etsy, and Dassault – Reasons for Divestment

We chose to sell Swedish company Lifco due to its high valuation. Lifco has been exceptionally skilled at acquiring quality companies at attractive prices and has created significant value over time. However, the current valuation assumes that the company will perform even better in the future than it has historically - something we consider less likely. As a result, we decided to exit the position and reallocate the capital to other portfolio companies with more reasonable valuations.

Etsy is best characterized as a misjudged investment. We underestimated how difficult it is to build a leading e-commerce platform. In the case of Dassault, our assessment is that management has not fully delivered on its promises. Whether this is solely due to headwinds from major clients in the automotive industry or indicative of more persistent challenges remains to be seen. Regardless, we concluded that the stock's valuation is too high relative to the risk in the investment case.

Looking Ahead

As long as Donald Trump remains President of the United States, markets will need to regularly navigate unexpected statements and abrupt changes in economic and political frameworks. In such an environment, it is crucial to look beyond the noise and focus on what will impact companies over the long term. The uncertainty surrounding tariffs is unlikely to be resolved anytime soon and will likely have a negative effect on the economy by delaying investment decisions. It will also be interesting to observe how U.S. consumers respond to price increases resulting from higher tariffs.

For most companies, however, these will be temporary challenges, and well-managed businesses will adapt. Predicting short-term market movements is impossible. Instead, we aim to identify long-term trends, find companies with strong competitive advantages that are exposed to these trends, and invest in them at reasonable valuations.

ODIN Global consists of a carefully selected group of companies that we believe have strong competitive positions and solid prospects for profitable growth. At the same time, the funds are well diversified, with exposure ranging from leading global technology firms to small European companies that are market leaders in niche segments. We believe the latter may experience a renaissance in a world where many investors are seeking diversification after years of increasing concentration in the U.S. equity market.