



Trees don't grow to the sky



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It's just over 30 years since the Nobel peace prize was awarded jointly to Nelson Mandela and FW de Klerk for their work in laying the foundations for a new democratic South Africa.

About 18 months after receiving the honour at the Oslo City Hall, and with Madiba firmly in charge of government, the now jobless de Klerk was asked to address the political society of the University of Johannesburg (or RAU, as it was known at the time). This happened to be the last year of my own short teaching career at the same institution and, somehow, I managed to crack an invite to this flagship event.

I must confess that I don't remember much of the ex-president's speech that evening. But I will never forget the way in which he was introduced to the audience by a senior professor in communication studies at the university, who also happened to be his elder brother, Wimpie de Klerk. Ouboet started by saying that, as one progresses through life and meets with an increasing amount of success, a lot of the detail on your curriculum vitae becomes less and less important.

Isn't this too true? Consider the university graduate looking for employment, facing the catch-22 situation of businesses

insisting on relevant experience, yet no-one is seemingly prepared to help one gain it by offering that crucial first job. In an attempt to impress, the CV will thus be filled with every possible leadership position at school and beyond, highlighting mediocre achievements and peripheral interests.

But, when you've been president of a country, especially during the most crucial transition period in living memory, where you helped avoid a civil war, it probably doesn't matter that you were vice-captain of the second cricket team in year 11. So you might as well omit that from your CV.

As Wimpie de Klerk concluded that evening in 1995: the more notable the individual, the shorter the effective CV. Even more so when it reduces to just a name, and everybody knows precisely who you're talking about and what they achieved in life: just think about Naas, Hansie, Cyril, Julius, Rassie, Siya ...

And, of course, in the case of Wimpie's younger brother, it reduced even further, to only two letters, with no additional detail or explanation required: FW. Which also marked the end of his introduction.

Approach with caution

This brings me to a recent client call, where questions were posed about the returns on

a global equity portfolio over the course of 2023. Even though the account was up nicely for the year, it did lag the benchmark by a few percentage points.

In terms of explaining it, I suggested to the client that there was a long answer, including all sorts of clever attribution analysis, as well as a short one, which can be summarised in only two letters: AI.

It is common cause that the AI trade dominated all others for much of 2023. Where once people spoke about FAANG stocks, they now refer to the Magnificent Seven. Netflix has been displaced by another N, namely Nvidia, but Facebook (Meta), Amazon, Apple and Google (Alphabet) have all retained their relevance. Microsoft and Tesla make up the rest of the numbers.

To a greater or lesser extent, all these businesses are likely to benefit from a world in which AI plays an increasing role in our lives. Accordingly, this basket has performed particularly strongly, with three of the constituents more than doubling in value over the course of 2023 (Nvidia went up three times).

Given that all these names also happen to be in the top 10 companies in the world as ranked by market capitalisation, it stands to reason that in aggregate they were responsible for the bulk of the index performance over the course of 2023. To illustrate: the S&P 500 index added a total of about 26% in those 12 months; the seven companies referred to were responsible for nearly two-thirds of that.

How long will this trend last? Call me a cynic, but I would suggest that one should approach some of the strongest performers in the AI basket with a bit of caution, given their demanding ratings today. Trees do not grow to the sky, after all.

By the time FW's acronym became recognisable around the world, it was essentially over for him. Let's see if the AI trade does better over the next few years. **X**

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