

# FCL *Capital*

1Q 2025

## American exceptionalism - a love story

It's the "pendulum" that Howard Marks alludes to, they are "the animal spirits" that Keynes referenced or, simply, the boom and burst cycle. Since the dawn of times markets have oscillated between periods of euphoria and despair with most of the time (fortunately) between those two extremes.

What is less understood: every single mania that ever appeared in markets, be it the nifty fifties<sup>1</sup> in the US in the 1970s, the dot-com mania at the turn of the millennium or the Japanese euphoria in the 1980s was not born out of thin air: there was always an initial and very justified new fact that was positive and deserved attention, making stock prices justifiably rise in consequence.

The nifty fifties were the first real world class companies. Investors were smart to identify them. Their subsequent mistake was to think that once a winner was spotted, valuations no longer mattered, and any price was justified.

Likewise, Japan was dominating the vital tech and consumer industries 40 years ago, outcompeting their American and European peers.

The mistakes made during the dot-com euphoria are well understood by now: investors were either too indiscriminating when picking the correct stocks to ride that wave (admittedly a very hard task at all times) or just were prepared to pay insane valuations in the process (Amazon took decades to regain its peak market cap from 1999).

The theme of this letter will be a different kind of bubble. One this house has been alluding to in passing for the past few years in this space already, but which had recently acquired new proportions, and we thought merited a special and more consolidated discussion.

The theme of this letter is not AI. Overall, if Deepseek proved something it was that global investors used AI more as an excuse for the real bubble we plan to discuss now than was itself a real bubble. In a single week it proved that AI will be a global and not an American phenomenon. But this did not completely kill the bubble we are alluding to.

It is, after all, a very strange kind of bubble. Not an absolute one. We do not think any stock market indexes are insanely overvalued right now, to be clear. The S&P500 at 24 next year's earnings certainly look too expensive and will probably give its investors somewhat lower than normal returns over the next decade or so. But this house is not even close to forecasting a catastrophe.

<sup>1</sup><https://www.investopedia.com/terms/n/niftyfifty.asp#:~:text=The%20Nifty%20Fifty%20was%20a,bull%20market%20of%20the%201970s>

We are also not claiming that AI is a bubble. Certainly, AI will change the world, and we can't wait to see (and potentially invest) in its winners and disruptors. And even if you conclude, dear investor, that AI is in fact a bubble, it is certainly a less crazy and expensive one than the dot.com or the Japanese ones.

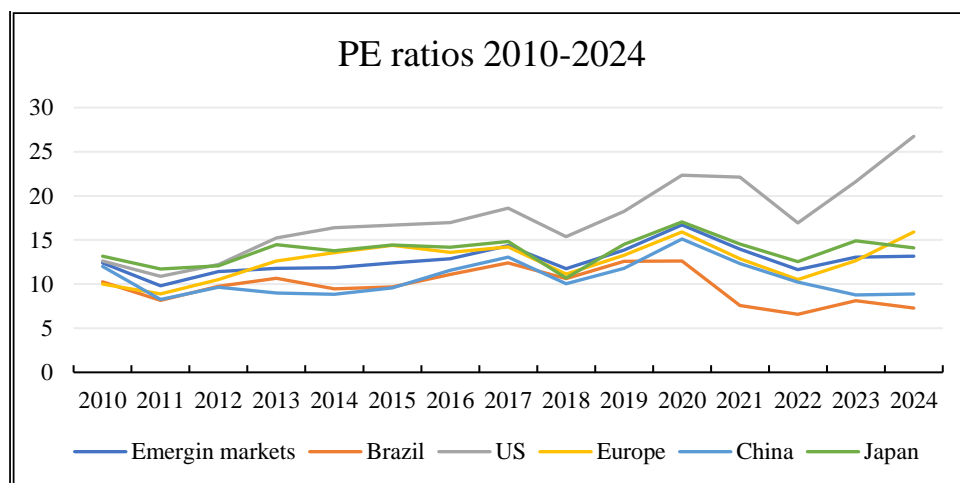
Rather, we will talk about a theme that finally is starting to be discussed by a few brave souls in the markets willing to challenge convention: the bubble in US exceptionalism. Or put in other words: how the US escaped completely to be judged by the same metrics, same level of demands and same valuation framework as its peers.

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We started this letter with the caveat that every single bubble that forms is born because something real, palpable and justifiable gave birth to it. It is just that human beings, with their extrapolations, impatience and emotions take things to the next level and dream of alternative realities that far exceed what is real.

American exceptionalism, just like the efficient market hypothesis<sup>2</sup>, can be understood in strong, semi strong and weak forms.

In its weakest form, this house broadly agrees with the idea that some investors have in mind when they talk about American exceptionalism: since the USA, with its more favorable demographics when compared to Europe and developed Asia, with its higher productivity, its abundant workforce, immigration flows, rule of law and economic strengths generating a higher rate of long term economic growth it should deserve a premium in its stock markets ( and to some extent in its currency) when compared to Europe, Japan or emerging markets in general.



<sup>2</sup><https://www.investopedia.com/ask/answers/032615/what-are-differences-between-weak-strong-and-semistrong-versions-efficient-market-hypothesis.asp>

The American economic strengths are well known. In fact, this house loves many things about the country and its markets. As we like to say, if we had to build a country from scratch to have dominating markets and a high GDP per capita one could do a lot worse than emulating America (or at least the historical image and idea of America): an ingrained belief in free markets and a very libertarian population, vast scale and resources, rule of law, moderate taxation, open competition, a diverse workforce, large inflows of migrants and capital coming from all corners of Earth in search for a better life, and incredible an incomparable culture of entrepreneurship, the most sophisticated financial markets on the planet by far, and so on.

To sum it up, we agree that US markets should command a premium, since all those advantages bring a higher long term economic growth rate.

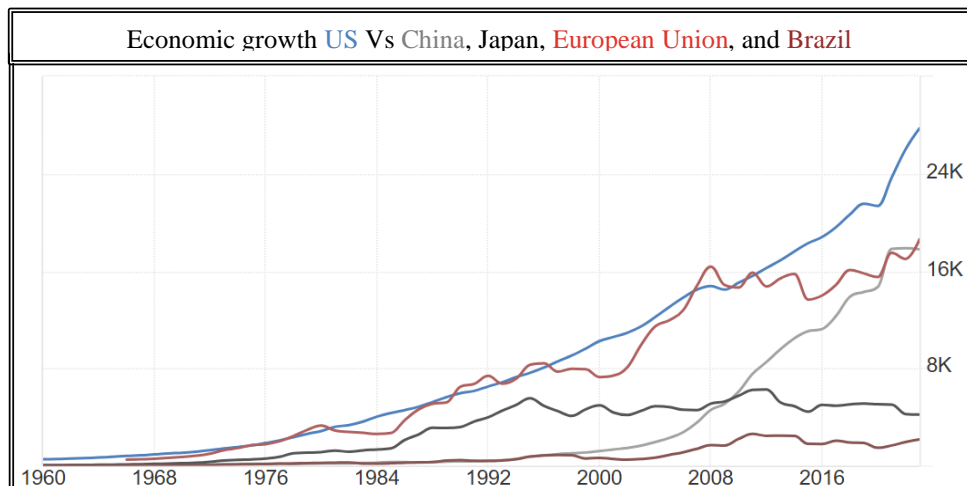
Furthermore, the 20<sup>th</sup> century proved that scale is nowadays something very important in business. A large part of the explanation why American companies dominates the global economy is their huge domestic market which gives them an amazing head start.

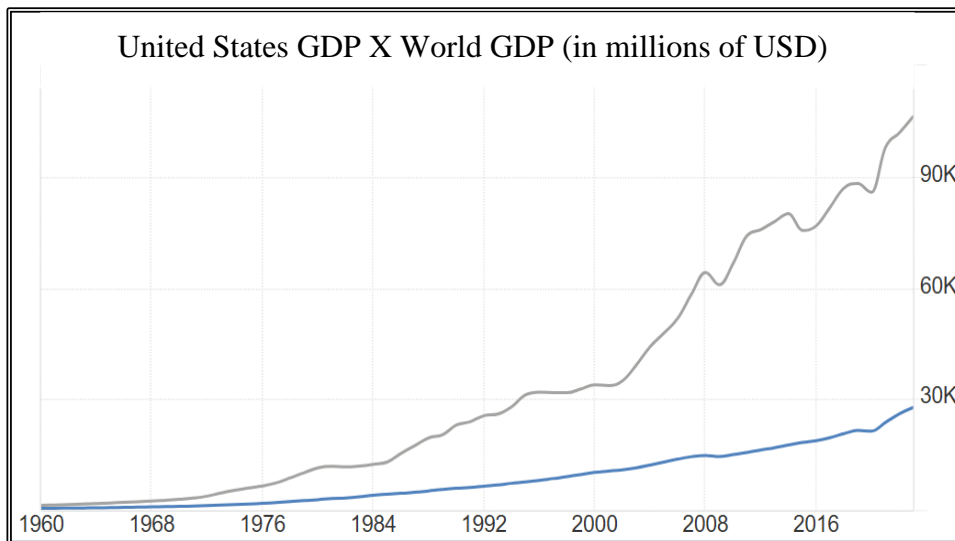
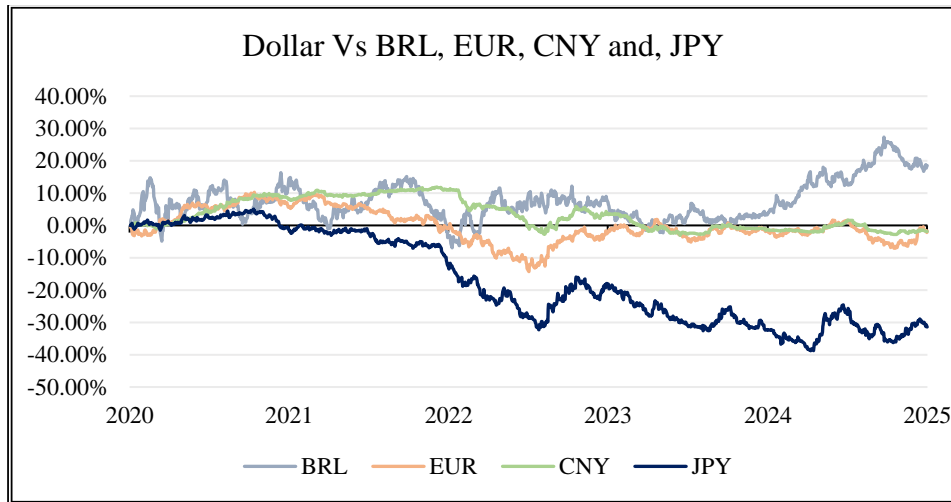
This house's problem has never been with this "weak form" American exceptionalism thesis. Our problem is that the thesis, like the previous market bubbles we alluded to, was taken to extreme proportions by its sympathizers.

Our answer against American exceptionalism in this letter will come in two parts:

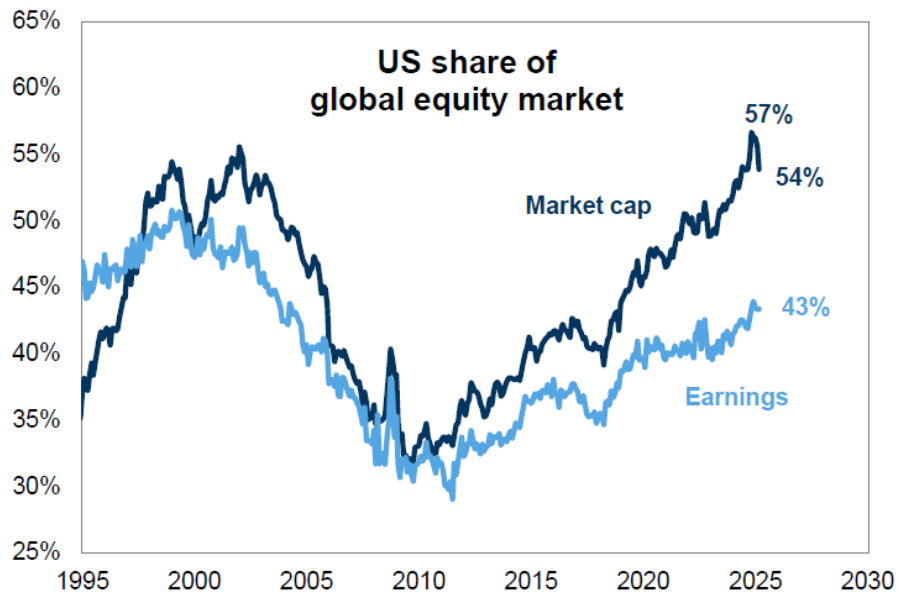
- 1) Unless you think American exceptionalism has massively increased in the past decade, the US markets are in a relative bubble because the above-mentioned advantages are not new, and the massive size of the US markets premium is.
- 2) The US is showing some early signs of decline.

Let's address each of them.

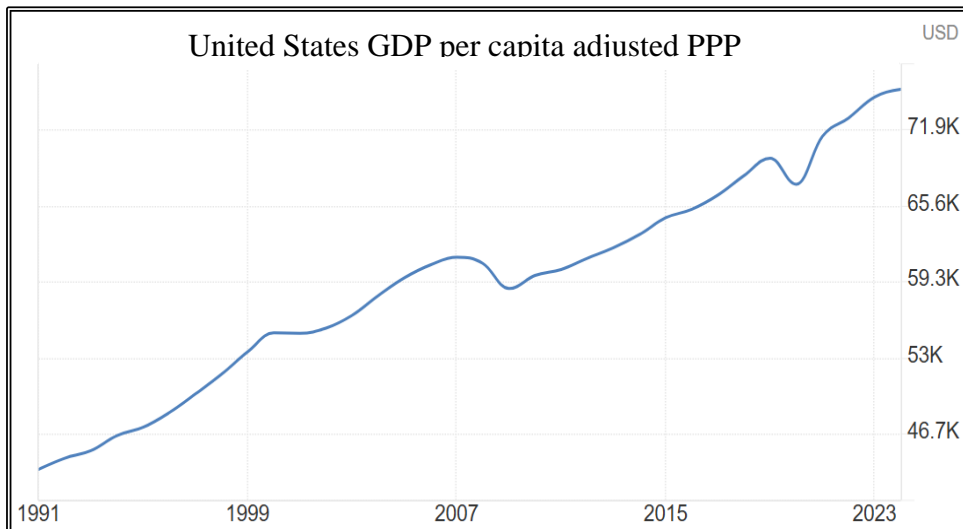


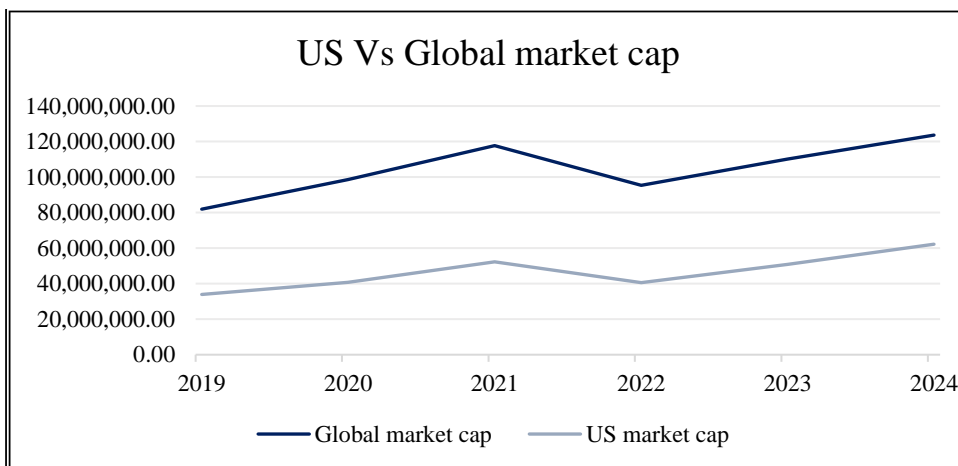
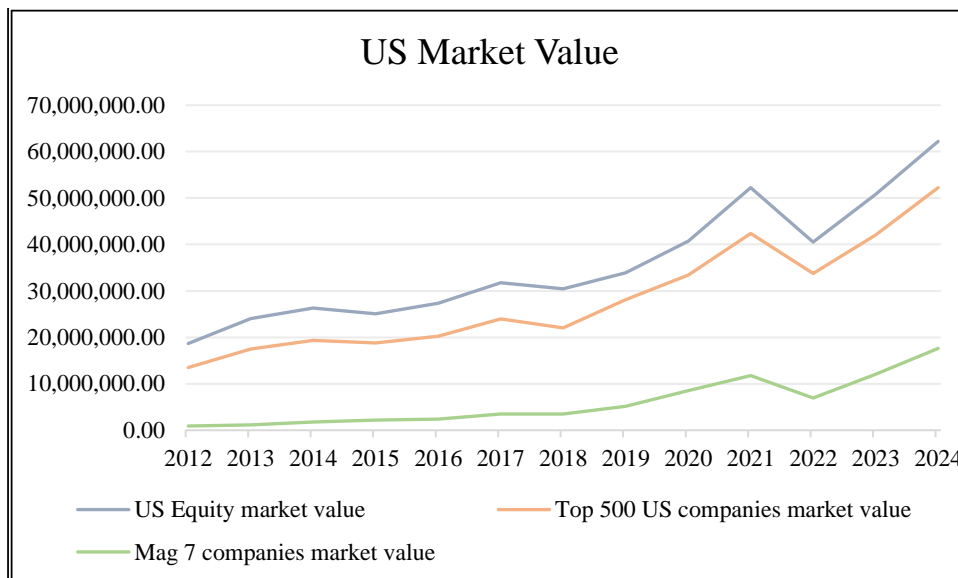
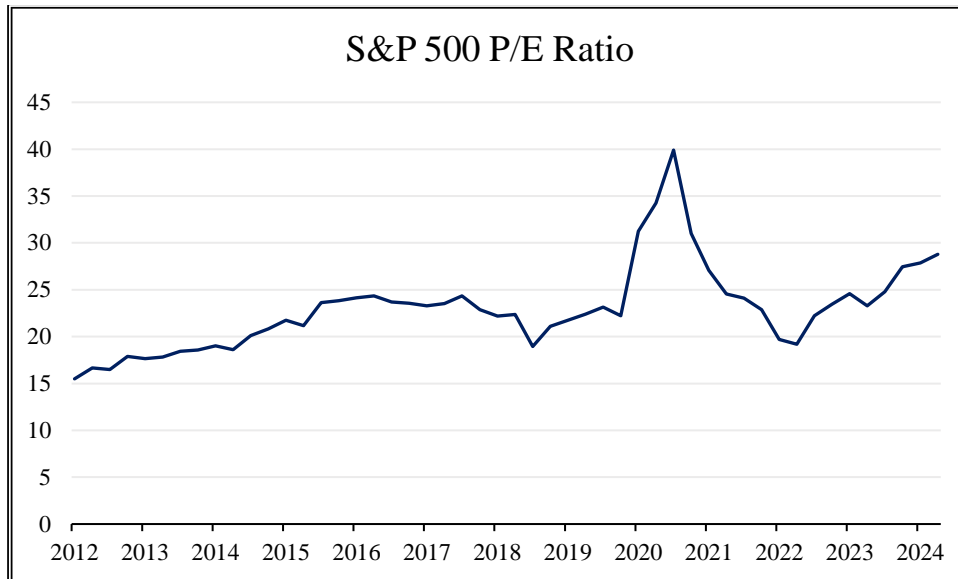


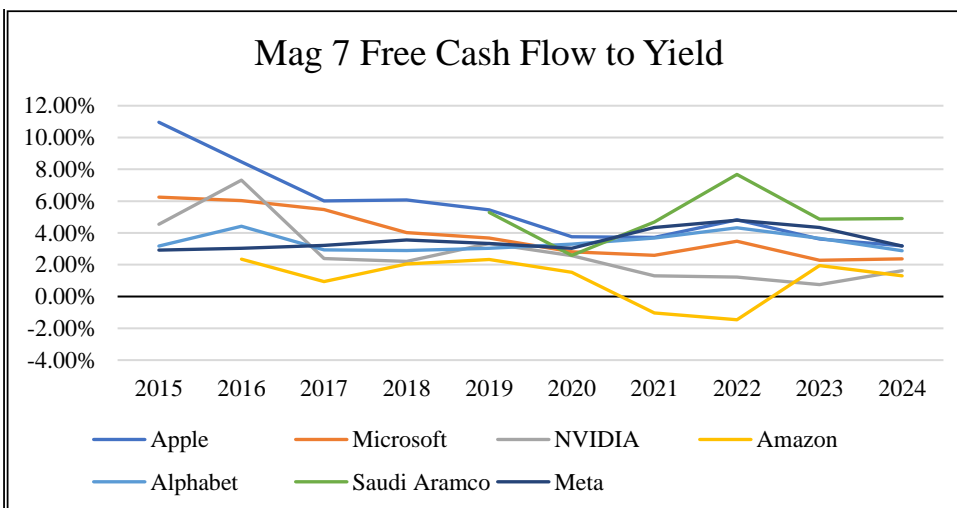
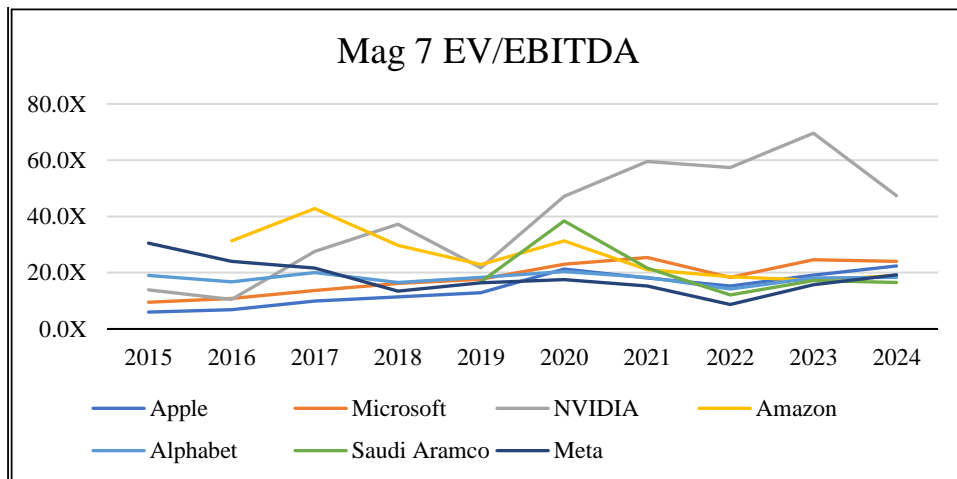
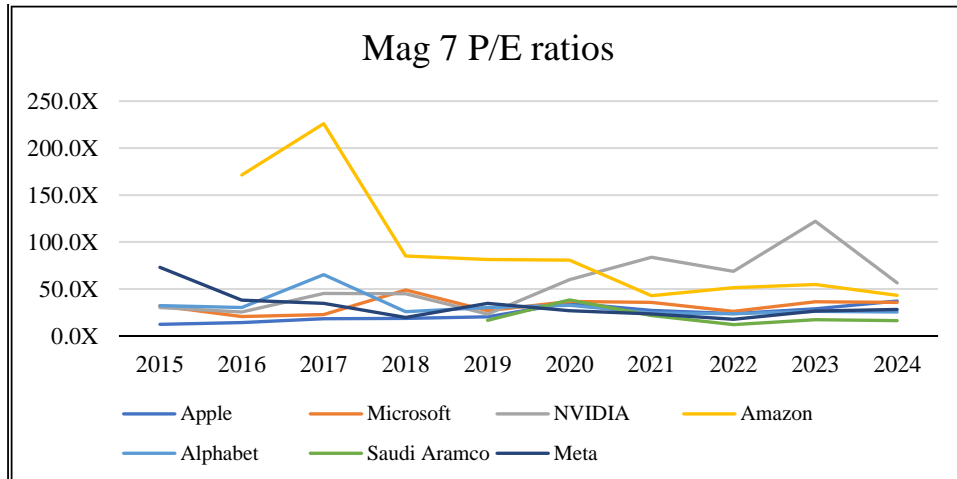
**Exhibit 8: The US share of global public equity market cap has recently declined**



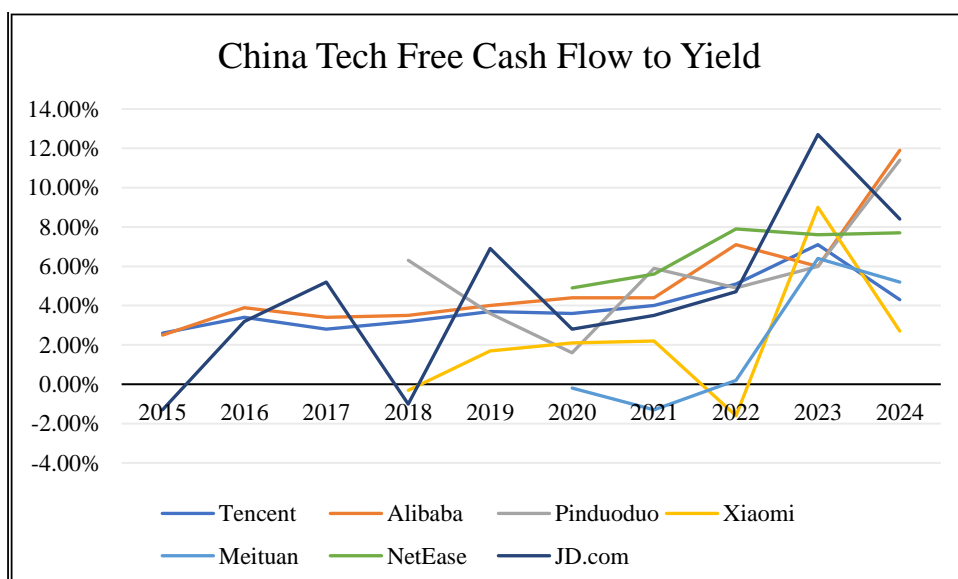
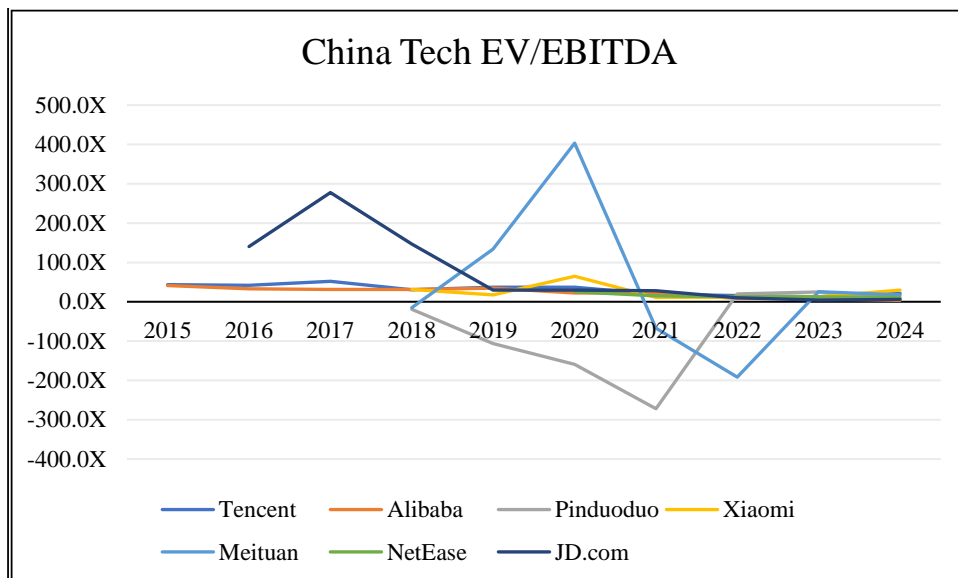
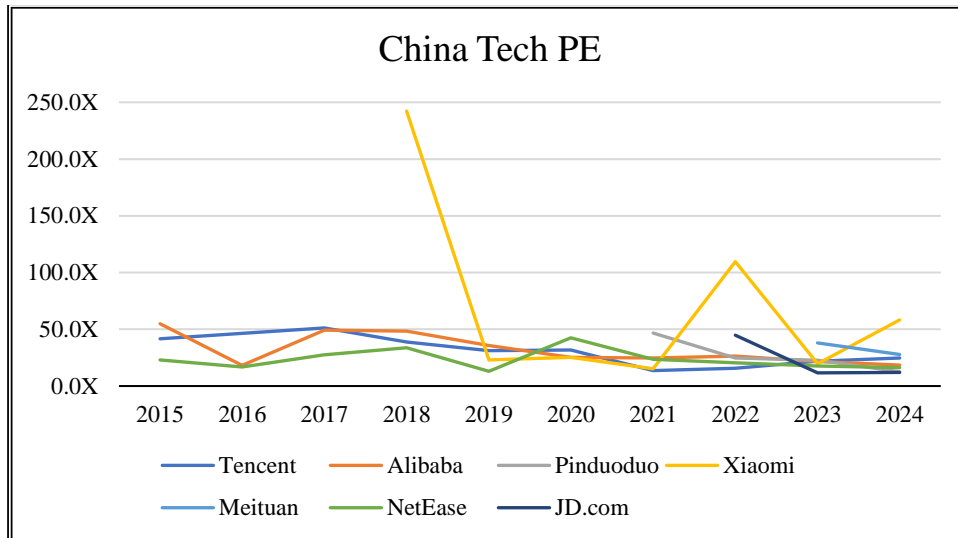
Source: Worldscope, Goldman Sachs Global Investment Research



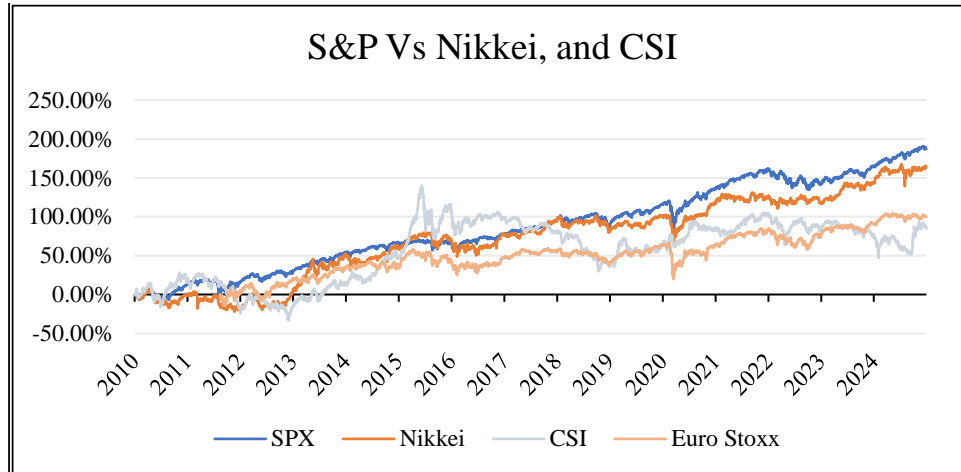








It's been at least 30 years since the US is convincingly growing faster than Europe and Japan. Over our careers we are old enough to have listened, early on, that someday "Europe's discount would close". It never happened, of course. Instead, this happened:



Now, what explains this massive outperformance? Should a dollar of profits made in the US really be valued so much higher than a dollar of profits made somewhere else?

A real part of the massive outperformance of the US markets against the rest of the world in the past 15 years, approximately one third, is due to the higher earnings growth enjoyed by the US companies. Why did this higher growth happen? In part it happened by higher economic growth at home (except for China) and in part because of an incredible event: the US was the only country that had companies perfectly positioned to enjoy the explosion of earnings brought by the tech revolution.

It is no coincidence that the US market has never been as concentrated. It is not that the average American company had amazing performance. It is that Google, Meta, Nvidia, Amazon, Tesla, Apple and Microsoft had an extraordinary performance because they rode the advent of the global tech revolution and then carried the US market with them.

We have no guarantee that the next incredible wave of value creation will again have such a disproportionate presence of American companies. If this house had to guess we will say it won't, since China, according to an international analysis, leads the world in 37 of 44 promising 21<sup>st</sup> century technologies<sup>3</sup>. And if we look at past value creation waves, like Oil, consumer electronics in the 1980s, the revolution of global supply chains and so forth, almost none of them were completely dominated by a single country and the consumer electronics revolution in the 1980s, in particular, was almost completely dominated by Japan, not the USA.

<sup>3</sup> <https://www.theguardian.com/world/2023/mar/02/china-leading-us-in-technology-race-in-all-but-a-few-fields-thinktank-finds>

But even though this higher earnings growth wave captured by the incredible companies in the magnificent seven is only a small part of the story

The real reason for the US market outperformance, or 75% of its explanation<sup>4</sup> is, quite simply, because the US valuations increased by a lot in the past decade while the European, Japanese and emerging markets indexes had a decrease in valuation. In other words, US earnings grew a bit more, but US valuations grew a lot, and the rest of the world valuations decreased.

To put it shortly, America experiences a somewhat higher economic growth rate than Europe and Japan due to many enduring factors (although much lower than China or India) and its companies captured the last tech wave in a very commanding form. This led to higher earnings growth. But then investors got excited because of this reality and started overbidding to insane levels. If in the 1970s you could do no wrong buying the nifty fifties, if in 2000 valuations no longer mattered when it came to dot-com stocks, then in 2024, especially in the frenetic weeks after Trump's election, you just had to buy US assets (stocks and the currency especially) and avoid anything from anywhere else like the plague. A bubble in US exceptionalism if not in US assets. A relative bubble. A disregard for what Howard Marks calls "the second derivative effect": Is this reality already reflecting in the price?

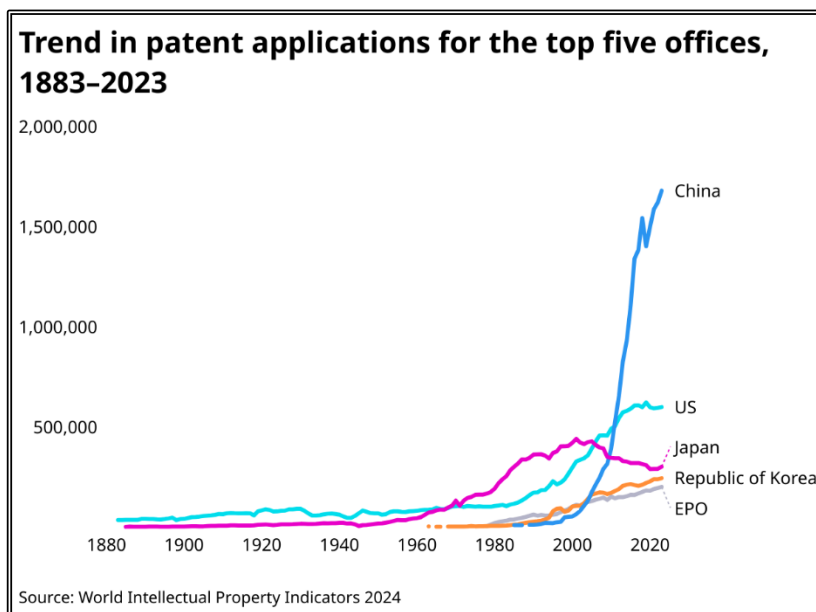
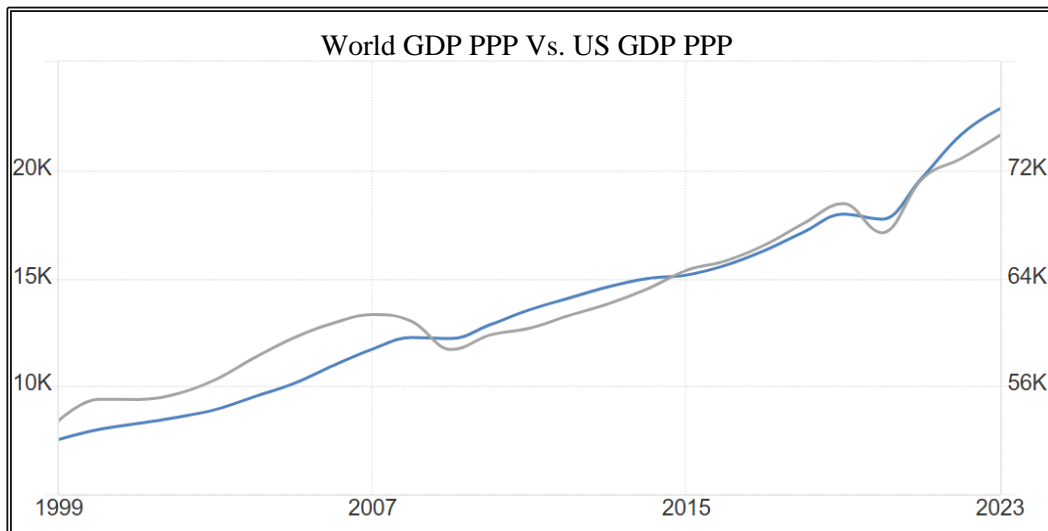
So, it is not that American exceptionalism, in the form of belief that the US will achieve somewhat higher rates of growth than Europe or Japan and deserves a premium is a false narrative. It is the fact that either you believe that for some reason american exceptionalism drastically expanded and has gone exponential in the past few years or you believe, like this house, that we are in a bubble of the belief in American exceptionalism itself (Keynes animal spirits again!).

But then, this leads us to number 2:

"2) The US is showing some early signs of decline".

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<sup>4</sup> <https://www.morningstar.com/stocks/us-stocks-have-outperformed-world-history-shows-that-success-can-be-fleeting>



There are many reasons the 20<sup>th</sup> century clearly was an American century. This house listed many of its strengths and reasons we love to spend time and invest in the country in the above section.

One anecdotal evidence: when Edmond Safra, according to a recent biography<sup>5</sup>, wanted to set up a bank in New York City, he was shocked to get a permit in a very formal, fast, and straightforward process when setting up a bank almost everywhere else in the world would only be possible with personal connections, with having the right religion, the right last name or right political influence.

“What a fair country”, he said. “What a young and fair country”.

<sup>5</sup> <https://www.amazon.co.uk/Bankers-Journey-Edmond-Global-Financial/dp/1635767857>

Well, is America becoming, on the margin, a little less libertarian, less fair, less straightforward?

Let's go to the headlines. As our readers know, at the time we write this letter (March 2025) the world is glued on the possibility that the American Economy, the world's largest consumer market and the spiritual home of capitalism, might close to the world and be swept away by tariffs. Meanwhile, Tik Tok, a formidable Chinese social network that is used by more than a hundred million Americans and is by many metrics the most important social network of the country and the world, might be blocked or face a forced sale of its US operations.

At the same time, there are many organizations, from powerful lobbies in Washington DC to a cadre of capitalists in Silicon Valley that profit in direct and indirect reasons by nurturing a Chinese hysteria.

No doubt, the country's unclassified victory against the Soviet Union, a country that rotted on the inside with its failed ideology has imprinted in many Americans a sense of repeat, a sense of nostalgic *Déjà vu* in believing that China is the new URSS and should be defeated.

The good news is that China is not the new USSR: in fact, its capitalists are among the best in the world and its stock markets and cities might be the most fertile ground for profits on the planet<sup>6</sup>. A world of commerce, not cold wars, if we bridge some differences. The bad news for those who want a cold war is that China will not be defeated. It is a lot more formidable and has scale on its side (a disadvantage America has never faced before).

But more importantly, the news flows of tariffs, China hysteria and uncertainty might at the very least show that a nation that has always been open for business is for the first time unsure of itself, bringing uncertainty and a capricious and complicated environment. A circus, and not an exceptional one at that.

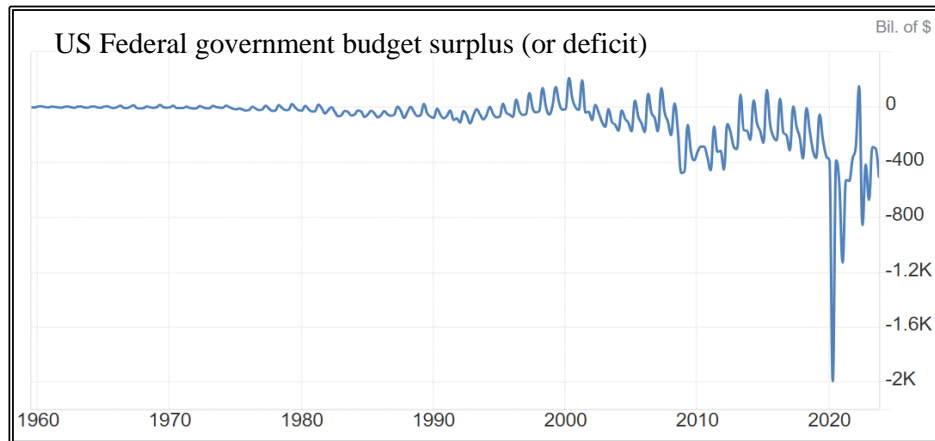
From dollar weaponization that incentivizes countries to at least consider alternatives to the American currency, to double standards in its foreign policy where some are mysteriously protected and any excuse is used against so called "opponents" in a bloc mindset we will at least see it negatively in a comparison with, say, Switzerland, our favorite country: think what you want of trump but admit there is at the very least key man risk: things change too much depending on who's on the White House (if not every week) To sum it up: not as stable a place or as fair and square a place as it once were.

Soft power is hard to measure but from Netflix watching habits to tourism flows we sense that on the margin America is at the very least becoming less exceptional

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<sup>6</sup>To many Americans, who grew up watching their "victory" against the USSR, there is some cold war nostalgia: the notion that one of them, either America or China will "win" while the other will "lose". But China is a 5000-year-old civilization that is not going anywhere. Neither is America. None of these countries is going to "bend the knee" to the other one. Some form of coexistence is necessary, especially because, really, most likely there won't be a clear cut "winner": they will have similar economic and military power for the remaining of this century.

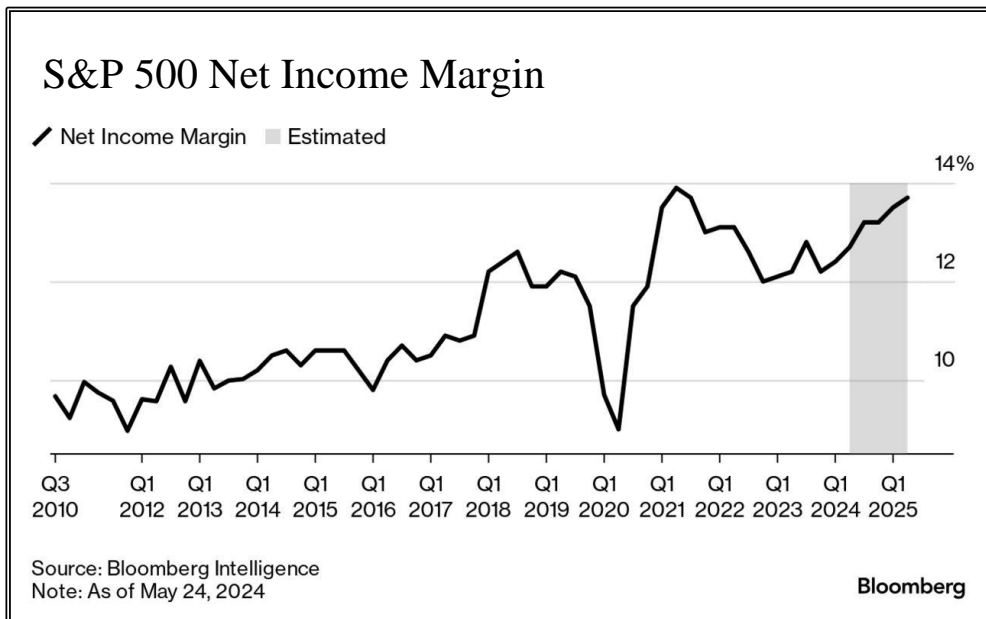
Over the short term, problems like the erosion of the rule of law, safety and problems like the US budget deficit at least should be a cause for concern. On the later point, this house would remember the fact that so far, US markets are seen as on a class of their own and the country can get away with almost anything. Any other country would be in trouble when dealing with this set of problems, but America so far is almost unharmed. But if there is one thing that markets teach us, it is that attention is a fickle thing, and many things are not a problem until the exact moment they are a terrible problem. Just ask the European periphery countries like Greece or emerging markets like Argentina.



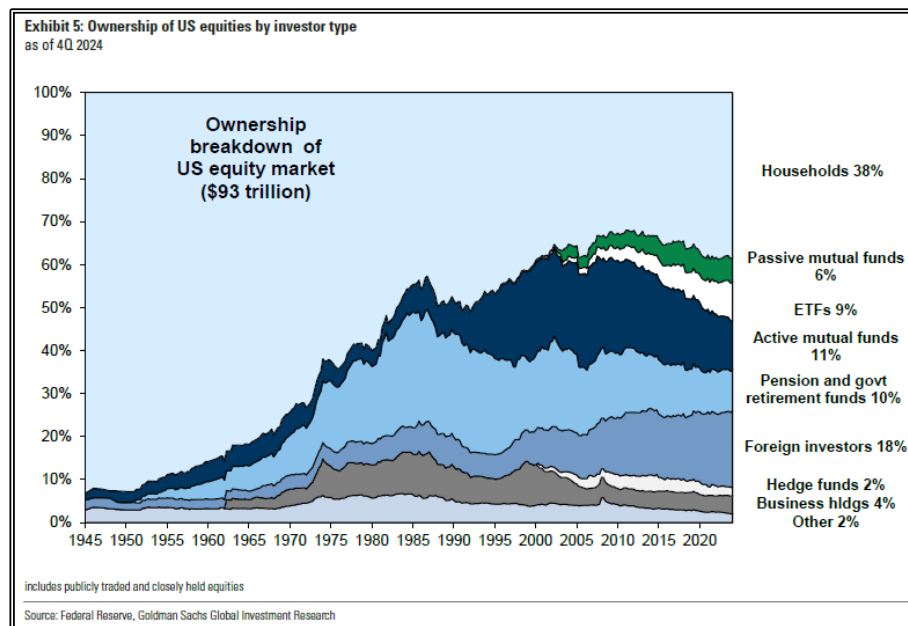
Over the longer term, on the other hand, having grown up as investors in Brazil we can at least call attention to a relatively overlooked point: Latin America has long been formed by oligopolistic industries. Be it retail, banking and many other sectors, Latin companies enjoy higher margins (since there is less competition) than developed peers. The obvious reason is that a set of written and unwritten rules makes competition limited, and uncertainty protects incumbents. This is great for incumbents' profits and great for stock market returns in the short term (higher margins means higher profits).

The problem of course is that over the long term those high margin and low competition countries became less dynamic and less promising economies. They don't allow for what Schumpeter called "creative destruction".

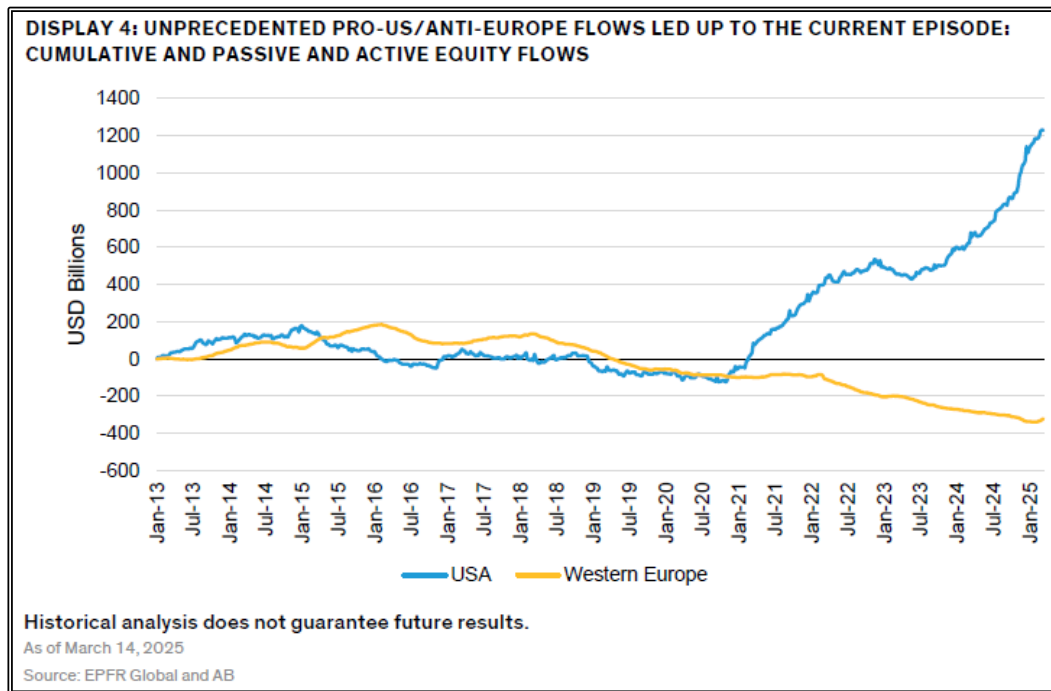
In our research this house has found a series of abnormal profits in many American industries in the past few years, and couldn't help but wonder if that exceptional market performance and exceptional profits experienced in the past decade were not caused in part because America is going through a "Latinization": becoming a little less open, with a little less competition and a little less dynamic. If that is the case, this can help the stock markets and incumbents' profits in the short term (like it probably already did) but will eventually hurt economic growth and dynamism in the longer term.



A place where lobby and not open competition dictates destiny is not what we, as international investors, want for the spiritual home of capitalism.



An explosion of euphoria by foreign investors willing to party in the US markets.



Investors equity flows

None of this means that the USA or its markets are going to some kind of cataclysm, to be sure. America is currently 54% of the market value of global equity markets. We do think the number will come down, just like its global share of GDP has been coming down (on PPP terms) for decades. That being said, for the remaining of our lifetimes, in all likelihood, the USA will have the highest level of GDP per capita (only surpassed by boutique countries like Norway, Singapore and Switzerland) the most sophisticated financial markets and by far the most dynamic economy in the world even with all those events and yellow flags. A place full of opportunity and promise. Again, a somewhat relative decline, at least against expectations, but not a dramatic one.

Our point in this section is that, since America's share of global GDP and innovations is decreasing (from a very high point) it is only natural that the country's 54% share of global market cap should decrease over time too.

To this house, always used to take the contrary position and deviate from consensus, we have been maintaining an exposure in Chinese equities completely apart from the wall street consensus, typically around 30% over the past five years, including during the years when everyone was telling anyone willing to listen that China was "uninvestible" and had "too much uncertainty".

Judging by the headlines emanating from Washington DC, with their daily those of tariffs, global trade wars and uncertainty China almost feels like Switzerland.





For investors concentrated mostly in global equities like this house, the next section is a discussion between one of our FCL Opportunities fund's largest holdings for the past two years, BYD.inc, a formidable Chinese electric car company and Tesla the famous car company chaired by Elon Musk and which, as this house has announced in the past few weeks, is currently a short position in our fund.

To end the section a call to our readers and investors: dare to go beyond the obvious in investing. When looking for global exposure, look beyond the magnificent seven and beyond only the US stock exchanges. While we can make no guarantees we think a massive shift will, sooner or later, come.

## Long BYD, Short tesla

In our [3Q 2023 Letter](#) we first updated our investors about a new position in our FCL Opportunities fund: the Chinese electric car company BYD.

Over the past 18 months a lot has changed for this incredible company and its obstinate founder. BYD is now officially the world's largest electric car company. Given that the company's shares have risen more than 90% over the past 12 months BYD is, at the time we write this letter, the largest position in our FCL Opportunities fund. Despite the rally, this house has not sold a single share for reasons we will discuss further.

BYD is, famously, a company that had among its most prominent investors Li Lu, Charlie Munger's investment manager, Mr. Munger himself, and later, Berkshire Hathaway, the legendary company that for 60 years was led by him alongside Warren Buffett.

As we were preparing this letter, we read our 3Q 2023 Letter where this house first discussed its BYD thesis, and we couldn't help but feel nostalgic when reading this section:

*“It is no secret that Charlie Munger is among the people this house admires the most.*

*He’s the other half of the formidable Berkshire Hathaway’s duo and will become a centenarian next January.*

*Munger, unlike his partner, has always been a little more varied in his interests and his perspective a little more daring, a person a little less preoccupied with public perceptions about him.*

*Over the decades the duo’s unmatched investment record speaks for itself. But for seasoned Berkshire observers very subtle differences can be seen between them from time to time. The pair made several trips to China, but unlike Buffett, Munger was personally influenced by his acquaintance of Chinese fund manager Li Lu, who is credited for helping him open his eyes to the China opportunity.*

*As it is publicly known, Munger is not only an investor in Li Lu’s fund, but the Chinese manager was the person responsible for presenting Munger the opportunity of investing in a then unknown battery maker called BYD back in 2008.*

*He even arranged a meeting between Munger and BYD’s founder Wang Chuanfu. Berkshire would subsequently buy a significant stake in BYD and is still an investor to this day. Munger once reportedly said that BYD was “the best thing he ever did for Berkshire”.*

As our readers know, just a month before his 100th birthday and a year after we wrote that letter, Charlie Munger passed away. His extraordinary legacy as an investor and thinker, on the other hand, still lives on.

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The purpose of this section will be to update our investors on BYD, the reasons and circumstances that made this a crucial position for FCL Opportunities and also give a plot twist: while our long term mentality and our circle of competence is more attuned with strategic long term investments, we found a position that we judge is able to amplify our BYD investment over the long term while decreasing its risk.

Over the years, it is very well known, countless investors tried to short Tesla’s shares only to get burnt

This house is confident that yes, this time is different.

## The case for shorting Tesla

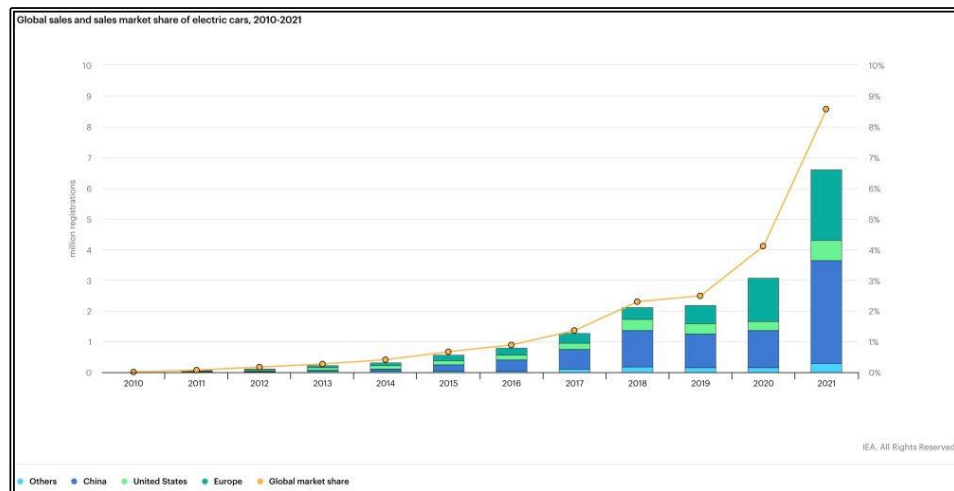
It is no secret that Tesla has long had its fanatical admirers, many of whom don't even have any knowledge of the company's financials. It is even less of a secret that Tesla's CEO, Elon Musk, is a larger than life and very polarizing figure.

This letter is not a political attack on Mr. Musk in any way. Indeed, as libertarians, we find much to admire in his freedom of speech defenses although as with anyone, we do have our differences with him.

Instead, this short thesis is solely a financial opinion on the company's fundamentals. And we hope to convince you, dear investor, by the end of this section that Tesla, the company, is in serious trouble and its shares will very probably be nosedive.

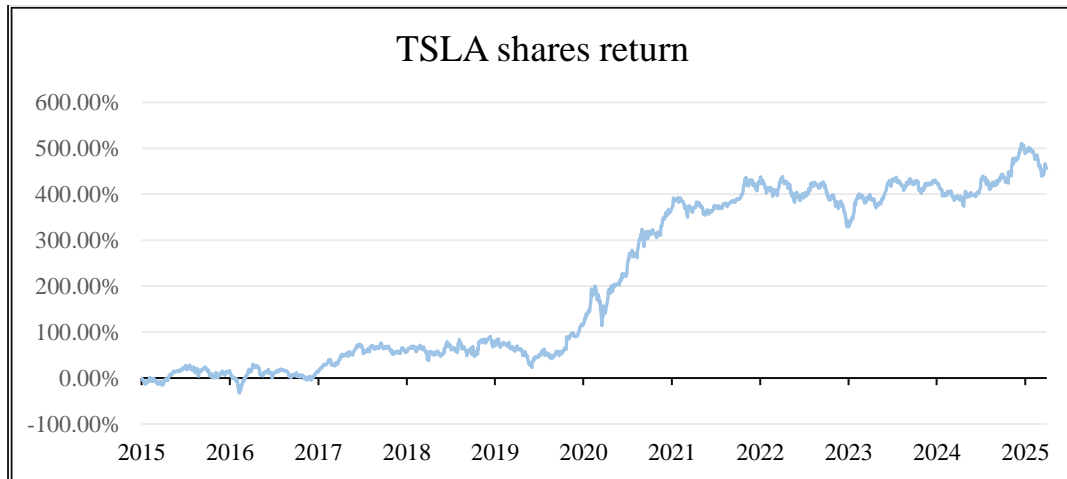
## The past decade for Tesla (or why the company crushed the shorts so far)

First, credit where is due: Tesla is a one-in-a-generation kind of company. It has single handedly changed the world. It is now accepted that the future of the car industry and quite possibly the future of transportation, as a whole, is electric, and Tesla had a major impact on this transformation.



As the company gradually proved its skeptics wrong and was able to produce a compelling electric car at scale and made it feasible to look at an alternative future beyond the combustion engine, Elon Musk went from a famous Silicon Valley investor and entrepreneur to one of the richest and most famous people on earth enjoying a cult status.

One doesn't need to go further than to dissect the many thousands of Reddit and social media posts since 2015 like this house did to realize that for many of its investors- and Tesla's investor base is definitely different than the investor base of most companies - the investment in Tesla is really just a giant investment in Mr. Musk himself without real regard for its fundamentals. A belief in history, not numbers.



In most companies, there are usually a few investors that take the risk and bet in a positive future before it is clear and, in some happy circumstances, they are proved right with the company's numbers vindicating this group that reaps the rewards of their vision. In other words, reality adjusts to the dreams of optimists.

Ironically, in Tesla's case, it was just after the company proved to be a viable concept and was destined to do great things that its share price started to misalign with its fundamental's thanks in large part to the cult around its founder. Valuation kept running ahead faster than reality.

In one interesting example, famous value investor David Einhorn started shorting Tesla's shares in 2018 (and again in 2020 and yet again in 2022) only to be sent a giant box of shorts by Mr. Musk himself in a personal challenge as if he had said: "I know you are the short Tesla's shares")<sup>8</sup> Einhorn stance, like so many investors, was never that Tesla is a fraud or about to go broke. It was that its valuation was insane and even under optimistic assumptions it would never make sense.

Overall, the story remained the same for the past few years: Tesla kept growing and giving its investors positive surprises while its shares maintained as astronomical run, making a company that was expensive before its growth phase to reach insane levels of market cap. At one point it was worth almost as much as every other car company combined.

| TSLA Multiples       | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|----------------------|--------|--------|--------|--------|--------|
| P/E                  | 1110X  | 216X   | 34X    | 58X    | 198X   |
| Gross Margin         | 21.02% | 25.29% | 25.60% | 18.25% | 17.86% |
| Free Cash Flow Yield | 0.33%  | 0.53%  | 1.66%  | 0.66%  | 0.29%  |
| EV/EBITDA            | 172X   | 93X    | 24X    | 43X    | 84X    |

<sup>7</sup><https://www.cnbc.com/2018/08/10/david-einhorn-gets-short-shorts-from-musk-he-is-a-man-of-his-word.html>

| BYD Multiples        | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|----------------------|--------|--------|--------|--------|--------|
| P/E                  | 10.8X  | 10.8X  | 10.5X  | 10.4X  | 7.5X   |
| Gross Margin         | 16.80% | 10.68% | 16.84% | 19.84% | 19.44% |
| Free Cash Flow Yield | 7.37%  | 4.60%  | 6.71%  | 7.74%  | 3.16%  |
| EV/EBITDA            | 21.0X  | 29.3X  | 14.7X  | 7.1X   | 9.5X   |

The new reality, however, is that in this house's opinion, the future of the car industry is not the one envisioned by Tesla. Over the past five years Tesla lost the leadership of the industry it created, for several reasons:

1. The future of the electric car is having many models, for many different types of clients and occasions. BYD has more than a dozen models while Tesla is incapable even of upgrading its Model Y properly<sup>8</sup>
2. As in some other industries, the Chinese are much ahead technologically and technically when it comes to engineering and production processes. In the past quarter alone BYD shocked the auto world twice, first unveiling its "God's eye" driverless system and then revealing an incredible charging system that recharges its electric batteries in less than five minutes, making recharging an electric car as fast and convenient as recharging a combustion one.
3. BYD has leapfrogged ahead in sales and scale while Tesla's shares are imploding due to its lack of updates, its outdated technology and the brand damage Mr. Musk is causing the company with its political opinions.

In fact, it has been clear for over a year that while Tesla deserves credit for essentially creating the electric car industry, the Chinese players, especially BYD, have long surpassed it. And Musk knows he won't be able to compete. He has said it himself publicly as long ago as January 2024 that without tariffs and barriers, "Chinese car makers will pretty much demolish the competition"<sup>9</sup>.

Not by coincidence, and ever a genius salesman, Mr. Musk decided to pivot: on October 10th 2024 Tesla made a lavish event in California where it introduced its so called "robotaxi" which is in reality a bizarre attempt to displace Uber and Lyft in the ride hailing industry with an idea that Tesla owners could use their cars to make some extra money using them to carry strangers when they reach full autonomy (and which is itself still far away and very much behind Waymo's technology) and also introducing Optimus, a humanoid robot still far from mass production that Musk said "will make Tesla the most valuable company ever by far"<sup>10</sup>.

<sup>8</sup> <https://www.teslarati.com/tesla-model-y-software-update/>

<sup>9</sup> <https://www.reuters.com/business/autos-transportation/tesla-ceo-musk-chinese-ev-firms-will-demolish-rivals-without-trade-barriers-2024-01-25/>

<sup>10</sup> <https://www.tesla.com/we-robot>

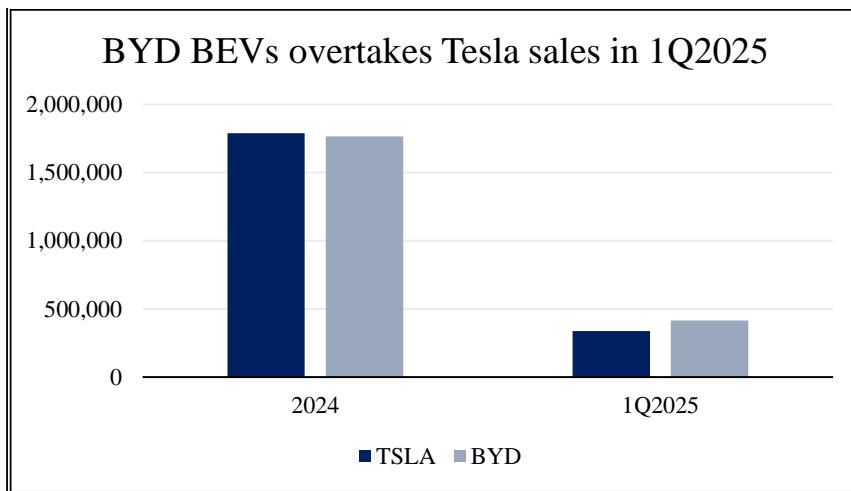
The event flopped<sup>11</sup>. Tesla's shares fell afterwards. But the whole attempt to pivot and deviate investor's attention from car sales and competition in the auto industry points to an obvious conclusion: Tesla, which is, let's face it, a car company, no longer is a leader selling cars. It's sales will not grow going forward, possibly for several years.

In the US, where the Trump administration recently rushed to put a series of tariffs against its trade partners, electric cars are barely growing in sales. On the rest of the world meanwhile, Tesla is simply being crushed.

After Trump's election Tesla shares, which have always traded at insane levels over the past few years, rose in the middle of the euphoria and because of Musk's association with the administration, to almost comic levels. That was when we decided to short Tesla's shares

An important consideration: shorting companies, especially ones with volatile stocks, should be made very carefully. Overall, our short position comprises less than 1% of our FCL Opportunities fund's NAV. And what's more, it is also risk mitigated by our long position in BYD, this on the other hand comprising more than 10% of our portfolio.

Tesla's car sales would nosedive anyway, due to its surpassed technology, lack of models and higher cost compared with Chinese rivals. But that was even before Elon Musk's political and social media statements contributed even more to the fall in Tesla's sales.



So, to summarize, Tesla's shares reached their most insane valuation ever right at the time its sales are imploding everywhere due to the fact they fell behind in technology, line of models and price.

<sup>11</sup> <https://www.youtube.com/watch?v=fgm5uZaS3-E>

Granted, due to the closed US market<sup>12</sup>, Tesla will probably be able to command a leading market share there (but even there Tesla will be hurt by higher input costs). BYD on the other hand will be able to dominate not only the Chinese market, by far the world's largest, but also southeast Asia, Latin America and, quite probably and crucially, Europe<sup>13</sup>.









In Brazil for example, a good barometer since the country's \$ GDP per capita is right at the world's median and it doesn't impose specific restrictions on either Tesla or BYD, the Chinese company dominates electric car sales with a market share approaching 80%. We suspect something similar will happen in most global markets.

To be clear, Tesla, which is the most traded stock in the NY exchange, surely still has many enthusiasts or it wouldn't have these multiples it still enjoys currently.

A traditional reply on Seeking Alpha, a popular investors forum when a new bear thesis, or simply a thesis that carries some doubts or anything besides sheer devotion to the company is "see you past \$1000")

(<https://seekingalpha.com/article/4771311-tesla-not-buying-mr-musk-euphoria-anymore>).

Meanwhile Cathie Wood, a celebrated fund manager that specializes in buying the most hyped and unrealistic companies and scenarios on earth, recently said that Tesla, her largest position, will reach \$2600 (from the current \$240)<sup>14</sup>.

| Tesla model    | Model 3   | Model Y   | Model S   | Model X  | Cybertruck  | Roadster  |
|----------------|---|---|---|--|---|---|
|                |  |  |  |  |  |  |
| Starting price | 4,130.00  | 61,630.00   | 81,630.00   | 97,490.00  | -   | -   |
| BYD model      | Seal  | Song Plus EV  | Han EV  | Tang EV  | Yangwang U8   | Yangwang U9   |
|                |  |  |  |  |  |  |
| Starting price | 24,515.00   | 21,000.00   | 28,600.00   | 31,700.00  | 150,600.00  | 233,000.00  |

\*all prices are in USD

<sup>12</sup> At the time we write this letter president Trump just announced an all-encompassing set of tariffs against all the USA trading partners. It is a very new situation and one we didn't have time to properly analyze but we don't think fundamentally alters the tone of this thesis when it comes to global car making competition.

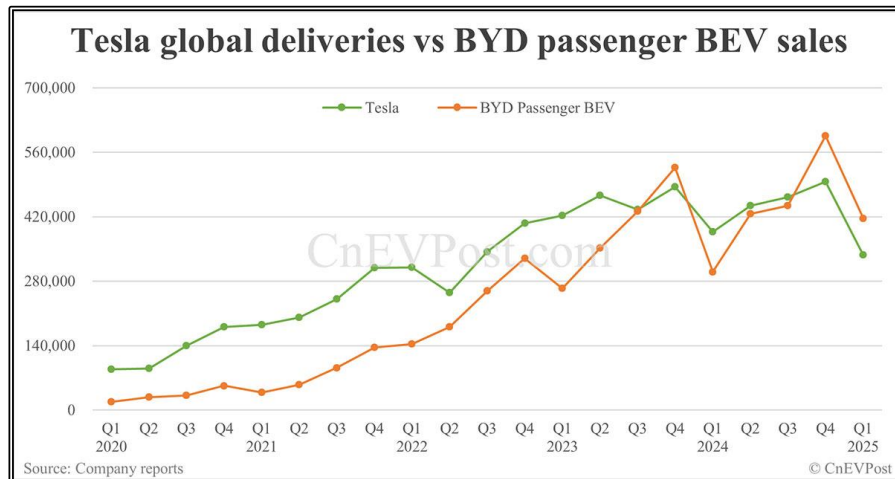
<sup>13</sup> [https://www.bloomberg.com/news/newsletters/2025-02-10/byd-is-taking-its-low-ball-pricing-playbook-global?cmpid=032325\\_morningapac&utm\\_medium=email&utm\\_source=newsletter&utm\\_term=250323&utm\\_campaign=morningapac](https://www.bloomberg.com/news/newsletters/2025-02-10/byd-is-taking-its-low-ball-pricing-playbook-global?cmpid=032325_morningapac&utm_medium=email&utm_source=newsletter&utm_term=250323&utm_campaign=morningapac)

<sup>14</sup> <https://www.fool.com/investing/2025/03/30/cathie-wood-thinks-tesla-will-hit-2600-a-share-her/#:~:text=Despite%20the%20challenges%2C%20at%20least,per%20share%20in%20five%20years.>



To this house, the only chance short sellers lose money, if they are able to hold on long enough, is that Tesla's stock prices and its fundamentals never again converge. In other words, if for some reason Tesla is the first stock that trades purely instinct and momentum, exactly like bitcoin, and its numbers, the fact that it sells (or doesn't sell) cars becomes an afterthought for its investor's base.

Anything short from that (and the reality is becoming clear) and Tesla's investors are in for a reckoning unfortunately.



| All in Millions of USD | 1Q2022    | 2Q2022    | 3Q2022    | 4Q2022    | 1Q2023    | 2Q2023    | 3Q2023    | 4Q2023    | 1Q2024    | 2Q2024    | 3Q2024    | 4Q2024    |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>TSLA</b>            | 18,756.00 | 16,934.00 | 21,454.00 | 24,318.00 | 23,329.00 | 24,927.00 | 23,350.00 | 25,167.00 | 21,301.00 | 25,500.00 | 25,182.00 | 25,707.00 |
| Growth (%)             |           | -9.71%    | 26.69%    | 13.35%    | -4.07%    | 6.85%     | -6.33%    | 7.78%     | -15.36%   | 19.71%    | -1.25%    | 2.08%     |
| <b>BYD</b>             | 10,539.30 | 12,504.40 | 16,456.20 | 22,672.60 | 17,498.60 | 19,288.40 | 22,209.40 | 25,365.70 | 17,304.10 | 24,252.80 | 28,660.00 | 37,656.00 |
| Growth (%)             |           | 18.65%    | 31.60%    | 37.78%    | -22.82%   | 10.23%    | 15.14%    | 14.21%    | -31.78%   | 40.16%    | 18.17%    | 31.39%    |

So, what should be a fair price for a Tesla share? At the time we are finalizing this letter<sup>15</sup> in early April 2025, news was just out that Tesla car deliveries decreased by 13% while BYD sales have increased by 59% in the first quarter of 2025.

If we were offered by both companies at exactly the market value, this house wouldn't blink for a second in choosing BYD. The fact that the Chinese company is worth around \$150 billion in stock markets and, we think, might be one of the champions of the next decade while Tesla is worth close to \$1 trillion might be one of the easiest asymmetries and one of the few "free lunches" in markets today.

To us, since Tesla is already a post growth company (despite the silly Musk hype around robots and driverless features which in reality are already behind its competitors) a multiple of 10 times its last twelve months Ebitda or a 5% Free Cash flow yield (whatever is higher) would already be an aggressive valuation. That would give us a market cap of \$130 billion or a target price for Tesla of around \$40 dollars per share, or a drop of around 85% from current levels.

<sup>15</sup> <https://www.reuters.com/business/autos-transportation/tesla-set-report-drop-q1-deliveries-weak-demand-musk-backlash-2025-04-02/>



To this house the fortunes of both car companies couldn't be more clearly different. One has all the prerequisites for being a champion of the electric revolution while the second will have a long road ahead to revamp its line of models, address the brand damage it is currently suffering and reposition itself for growth.

Granted, investing is a probabilistic activity and there are always surprises. That's why smart investors never bet in a way they can't be wrong. But at current share price levels we would be very comfortable in having both our long position in BYD and our short in Tesla as separate, standalone investments. The fact we can pair them up makes sense for a portfolio and even risk mitigation perspective. So, we decided to also look at them as a single big trade.

| Sector Distribution    | % AUM  |
|------------------------|--------|
| Consumer Discretionary | 34.87% |
| Industrials            | 16.48% |
| Financial              | 12.19% |
| Miscellaneous          | 10.24% |
| Communication Services | 9.16%  |
| Consumer Durables      | 7.61%  |
| Commercial Services    | 3.15%  |
| Cash                   | 3.02%  |
| Healthcare             | 1.98%  |
| Staple                 | 1.10%  |
| Technology             | 0.21%  |

| Portfolio Concentration | % AUM  |
|-------------------------|--------|
| Top 5                   | 59.16% |
| Top 10                  | 85.91% |
| Top 15                  | 95.24% |

| Returns                         |         |
|---------------------------------|---------|
| Year To Date (BRL)              | 1.33%   |
| Year To Date (USD)              | 9.64%   |
| 12 Months (BRL)                 | 15.99%  |
| 12 Months (USD)                 | 1.94%   |
| Since Inception (BRL)           | 110.57% |
| Since Inception (USD)           | 15.01%  |
| Annualized Rate of return (BRL) | 9.65%   |
| Annualized Rate of return (USD) | 1.90%   |

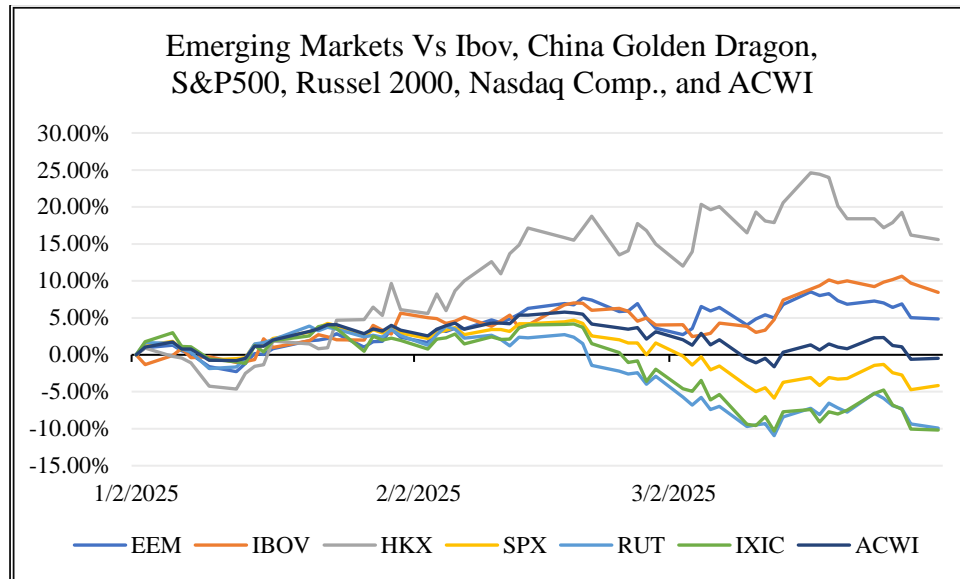
| Top 5 Concentration | % AUM  |
|---------------------|--------|
| 1211:HK             | 14.95% |
| ANT:XHKG            | 12.22% |
| PDD:US              | 11.70% |
| HDB:US              | 10.17% |
| MONC                | 10.13% |

| Geographic Distribution | % AUM  |
|-------------------------|--------|
| China                   | 38.87% |
| Europe                  | 21.93% |
| US                      | 10.37% |
| India                   | 10.17% |
| Brazil                  | 8.13%  |
| Miscellaneous           | 6.99%  |
| UK                      | 2.02%  |
| Japan                   | 1.53%  |

| Exchange Exposure | % AUM  |
|-------------------|--------|
| RMB               | 38.87% |
| EUR               | 21.93% |
| USD               | 17.37% |
| INR               | 10.17% |
| BRL               | 8.13%  |
| GBP               | 2.02%  |
| JPY               | 1.53%  |

FCL Opportunities performance was positive in 1.33% in the first quarter of 2025. In USD our performance was stronger, with the NAV of our shares increasing 9.64%. This performance translates into a compounded annual return of 9.65% and of 1.90% in US dollars since the inception of our FCL Opportunities fund on January 30<sup>th</sup>, 2017. Over the past 12 months our performance is positive in 15.99% in Brazilian real and positive 1.94% in US dollars.

Overall, the thing that comes to mind quickly when assessing our fund's performance in the past quarter was that this was the first time in a long time that our overall current strategic positioning and strategic allocation was a tailwind instead of a headwind: being long emerging markets and China, generally short the US dollar, trying to avoid exposure to US consumption and not relying on the magnificent seven finally paid off for us.



The obvious question we are getting from our investors now is: what is coming next? In other words, how bad the current global trade war situation is going to get and how are we positioning our portfolio for this?

Starting with the obvious admission that we are not political forecasters or analysts (not that those add a lot of particular insight in this house's honest opinion) but we have been observing the events since the inauguration of the current US administration and have been trying to position ourselves accordingly:

The first point is that so far, we have become more confident in our overall framework, that was also the main theme of this letter, that the US exceptionalism (with its many definitions) is fading or at least decreasing<sup>16</sup>. We feel this position, that cost us a lot of performance in the past two years, seems to have finally started to be accepted by lots of global investors.

The process will be long and messy. One of the things we try to do in times like this is thinking in worst case scenarios.

When it comes to the trade war between China and the USA the world seems to be approaching very quickly a worst-case scenario which is an almost complete breakdown of trade relations between the world's two largest economies. Trump imposed (after lots of additional levies and retaliations) a total tariff of 104% against China, that also retaliated, and which also has a sky-high rate against the US side (at the particular date we are writing this because these things are changing by the minute) currently at 84%.

<sup>16</sup> At the time we write this letter global stocks, especially US stocks are tanking but at the same time the 10-year treasury, usually the definitive flight to quality asset is also decreasing in price while the US dollar is falling against currencies like the Japanese Yen and the Swiss Francs.

For China this certainly means a very serious growth deceleration. China's economic model is less reliant on domestic consumption and a lot more dependent on manufacture and exports, a frequent topic of tensions between the country and the rest of the world. Overall, China's exports represent almost 20% of its GDP and the US share of its exports is around 15%, meaning in a rough calculation, that some 3% of its GDP is at stake in the China/US trade war.

For America however, the problems are equally serious and not as appreciated. The country relies on domestic consumption for some 70% of its output. The fact that makes the US the world's most sophisticated economy is its incredible consumer market. In other words, the ability to have most of the planet's goods and services.

Not only the US also exports some \$150 billion annually to China which will make the retaliation it is suffering painful for many companies and farmers, but most importantly, the current level of tariffs will destroy many value chains in the country: from the factories that rely on Chinese pieces to operate to the coffee chain that needs Chinese tea or grains or machines.

The cost to the world of such man-made destruction of value is incalculable. The world economy is interconnected, with most companies relying on imports as inputs of production for their own exports and so on many times over.

Overall, if these tariffs go ahead, America will become a place where doing anything, from buying an iPhone to building a house will be a lot slower and costlier. Coming from Brazil, a country that historically has been a closed economy our obvious advice would be 'don't do it'.

But since we cannot influence this then this house will solely focus on what it can influence: how to protect its portfolio for those and, also, other possible disruptions.

Starting by the Chinese names in own portfolio:

Anta, the athletic footwear and sports company, does not export or has a significative presence in the US. Its global expansion, which is only now starting, seems to be beginning by southeast Asia. Anta does have a subsidiary called Amer sports, which is affected by tariffs since it sells worldwide and it has factories in China, but Amer is overall a small part of Anta's earnings.

BYD, the global leader in electric vehicles does not sell cars in the USA which already had a 100% tariff against Chinese electric cars in place (or otherwise Tesla would already be in serious trouble now<sup>17</sup>).

PDD is the one company that is affected by the trade war between the two countries. Although its main business sits in China, Pinduoduo built with great success a global subsidiary called Temu, which ships items from China to the world.

<sup>17</sup> See section 2 in this letter for more on BYD X Tesla

Over the past 12 months Temu has been diversifying its sales away from the US, trying to be ahead of this possible threat. It has also been building warehouses in America and trying to source local items. According to most calculations Temu is around 40% of Pinduoduo's sales and the US around 50% of Temu revenues. At first glance the crackdown on the company can seem especially severe since Temu did not pay any tax on most US sales thanks to the *de minimus* exception which the Trump administration also closed<sup>18</sup>.

But one very important point: As of 2025 Temu is not yet profitable. It is still in the expansion stage. So, if, under an extreme scenario, Temu's US revenues go to zero, this would not affect Pinduoduo's profits, only its sales and future prospects.

And what is more, Pinduoduo is trading at extremely cheap levels, at some 18% EV/ Free Cash Flow yield and more than 30% of its market cap in cash while still growing. We have not sold a single share although we are obviously monitoring the situation very closely.

As for our European companies the only ones that seem affected by Trump's tariffs of 20% against the EU are Moncler and Technogym (we also have a very small position in Prada so the impact on the portfolio is negligible). The great mitigator here is that both Moncler and Technogym have the USA as a relatively small part of their overall sales, around 10% of total. Once again, we feel vindicated about our positioning over the past two years of avoiding exposure to the US consumer.

| Company   | Sales in Americas (mostly US) |
|-----------|-------------------------------|
| Technogym | 13.20%                        |
| Moncler   | 14.00%                        |
| Prada     | 17.12%                        |

As for our US companies (Booking, New York Times) they operate in sectors that don't traditionally rely on Chinese (or other non-domestic) components or consumers.

To summarize, while obviously monitoring the situation on a day-to-day or maybe even a minute-by-minute basis we feel confident that the current disturbances, while certainly painful and unfortunate (especially because they were born out of human stupidity instead of a virus or economic crisis) will not seriously do damage to our portfolio over the long term<sup>19</sup>.

<sup>18</sup> <https://www.axios.com/2025/04/09/trump-tariffs-temu-shein-de-minimis>

<sup>19</sup> Even more than economic stupidity now causing so much economic destruction, what is even more puzzling to this house is the sheer lack of decency and rationality: the current US administration is not so much interested in making the country march forward like the country did throughout its history but it is instead preoccupied solely with how it can hurt China and not let China be strong. The same behavior could already be seen in fewer extreme forms in the Biden administration (for example in chips sales restrictions) but acquired new proportions this year. This is a completely immoral behavior in our opinion or what one would call the difference between ambition (someone's desire to move forward) and envy (the desire to not see someone else succeed).

As always, we welcome your questions and comments, and we truly appreciate your continued support - both during challenging times and quieter periods.

FCL Team.