



Hosking Partners[®]

Quarterly Commentary Q3 2025

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The 3.4% outperformance (net) in Q3 takes year-to-date alpha for the strategy to +6.1%. Whilst the quarter saw gains across many asset classes, an 11% absolute net return from our highly idiosyncratic, diversified, global go-anywhere strategy stands as a marker: we now appear to be some 12 months or so into a new regime for global stock markets. Over the past 12 months, the strategy has delivered 3.9% alpha versus the MSCI AC World – an index heavily weighted toward a small number of large cap US stocks, recently driven higher by the prospect of gains in artificial intelligence (AI). By contrast, our strategy is highly diversified, with a total of c380 stocks spanning idiosyncratic individual ideas, alongside a concentration of bottom-up “themes” expressed via higher-conviction baskets. This level of diversification may be dismissed as benchmark hugging or as demonstrating a ‘lack of single stock conviction’, yet it has delivered strong alpha in a ‘concentrated growth’ market. How?

In short, global equity markets are broadening. After a decade-plus of US leadership, the US stock market stands at ‘once-a-generation’ valuation extremes.ⁱ And with anecdotal evidence now mounting of speculative excess in AI. The handful of stocks that have led the US market for the past decade-plus are now seeing returns on capital decline. The so-called ‘hyperscalers’ are dramatically increasing their invested capital bases as they roll out hundreds of billions of dollars of AI supporting datacentres. We are witnessing a classic capital cycle, with a real risk of over-build. Despite September’s long-awaited cut in US interest rates, US equities struggled to outperform in Q3, underperforming China, Japan and Emerging Markets over the quarter, benefitting our long standing, valuation-driven underweight to the US. We are now 30% below the benchmark weight of 65% in the US. This geographic underweight is an output of our capital cycle investment process, which has led us to allocate to more compelling opportunities outside of the US and down the market cap spectrum. Our relative underweight to the US and overweight to harder-to-access opportunities in Japan, the UK, and emerging markets, feels approximately correct as the baton of equity market



performance is passed to major economies where valuations are low, capital has been rationed and the outlook is improving.

The epicentre of this reappraisal of capital returns is the metals and mining sector – where the strategy has a 10.7% weight vs 1.7% for the index. Mining companies have under-invested for over a decade. Low stock valuations begot low capital expenditures as mine extensions and greenfield projects were shelved, creating supply constraints today. Perhaps the most striking example of the impact of this under-investment is the now falling supply of primary Platinum Group Metals (PGMs). As we have written about [here](#) in our recent note revisiting our 2024 thesis on the sector:

“The bottom line is the persistent inelasticity of PGM supply. The last major cycle of investment into deep South African mines was allocated in the late 1990s. 30 years on, the shafts built out with that capital are coming to a natural end of life. In order to continue going underground in South Africa we will need to see much higher prices than \$2,500. During the late 1990s – early 2000s cycle, the PGM basket price was approximately twice the price of gold. Today, the basket price is less than 50% that of gold. A reminder of just how deeply depressed the PGM basket is.”

Our basket of PGM mining shares rose c50% over the quarter, adding +116bps contribution to return. Whilst year-to-date gains for the basket have been +263bps, we continue to focus on the extreme supply-demand mismatch, which will see a deficit approaching 1mn ounces this year in platinum. Outside of PGMs, our mining exposure to coal (+44bps) and copper (+29bps) miners demonstrated the importance of our basket approach to mining capital cycles. In both instances, we have taken advantage of substantial price dislocations to re-weight individual names within the baskets – keeping exposure to the underlying capital cycle but increasing the quality and valuation in each basket. In coal, we took advantage of the near doubling of price over the quarter to recycle capital away from **Peabody**. In our copper basket, we increased our investment in **Freeport-McMoRan** after sharp price falls. **Freeport-McMoRan** has one of the most impressive global copper endowments and with one of two US smelters, substantial strategic value.



Part of the broadening of global equity markets has been the reappraisal of hitherto ‘un-investible’ Chinese equities. In Q3, China and Hong Kong markets rose c20% (in US dollar terms) as investors began rewarding the Chinese approach to AI: open sourced, powered by cheap, plentiful power and increasingly self-sufficient advanced chips. The strategy saw a +52bps contribution to return from its 2% weight in China, half of which is accounted for by **Alibaba** and **Tencent**. Whilst our direct China exposure is small at the strategy level – a reflection of geopolitical caution – our positioning is heavily skewed to leading technology companies whose valuations, relative to US peers, remain compelling. **Alibaba** remains 43% off its peak versus US Magnificent 7 companies all within touching distance of all-time share price highs.

In Japan, the strategy’s 14.7% weight is 3x that of the index, and positive performance saw the region add 134bps in Q3 2025. Our Japan thesis represents a country-level capital cycle to which the large scale consolidation of industries is the end destination. As such, we were encouraged to see that the leader of Japan’s Liberal party, Sanae Takaichi, may become the future Prime Minister. Often compared to Margaret Thatcher, the “Iron Lady of Japan” was reported in the FT as inquiring incredulously, “why does Japan need six motorcycle manufacturers?” Asking the right questions is key to getting the right answer, and we see a long runway of improved capital returns as M&A, hitherto a missing piece in the Japan jigsaw, is set to become more widespread under the premiership of Takaichi. Our basket of shares continued to outperform, rising 8.9% against the Japanese index return of 8.0%.

Added to a geographic broadening has been a revival in small- and mid-cap shares outside the US. Amongst the PGM mining shares, one of the largest single-stock contributors to relative performance in Q3 was **Saga**, adding 24bps. The over-50s ‘silver-pound’ company’s £400m market cap, which rose 53% over the quarter, is rapidly adjusting to the management team’s £100m operating profit goal and remains a fraction of the replacement cost of a 75-year-old brand that has some of the highest name recognition in the UK. It is a large company with a small market cap! Similarly, our 1.9% basket weight in 11 Sri Lankan small cap shares continued to take advantage of the economic



recovery in the country, with a contribution of 32bps. At both **Saga** and in Sri Lanka there remains a compelling investment case for multi-bagger returns, as turnarounds are worked through and replacement cost draws valuations materially higher.

In terms of trade activity, the most significant additions were into our chemicals and spirits ‘buckets’. Neither of these two cycles has yet to inflect positively, but we continue to leverage our multi-counsellor model to reduce the dollar-cost-average into what we see as compelling capital cycles. In chemicals, we added to **Croda**, **LyondellBasell**, **Quaker Houghton**, **Lanxess** and **Synthomer**. In spirits, top ups were made in **Diageo**, **Pernod Ricard** and **Remy Cointreau**.

Sales were again characterised by trims in US financials with **Wells Fargo**, **PNC** and **Citigroup**. Large cap US financials have been standout investments of the past five years. Indeed, it may surprise many readers that, on a total return basis, our basket of US Banks has outperformed the Magnificent 7 on 1-, 2-, and 5-year periods.



Looking forward, we see a long runway of global equity broadening. However, we do see resolution of the AI paradox as key. The level of concentration and herding now evident is alarming. As we wrote in our recent piece:



“At the nexus of this stock market conundrum is Nvidia. A stock that has risen an astonishing 347 times over the past decade, an 80% compound annual growth rate. Nvidia has the largest index weight of any company in the history of the S&P 500 at 8%. It represents 5% of the MSCI ACWI.”

The weight of these hyperscaler stocks in global indices is now such that the AI ‘bet’ must pay off. The flip side is that most of the investor attention that has been focussed on the narrow set of US, mega cap, technology companies will now migrate to areas where capital has been rationed and returns are starting to rise, not fall. This will likely focus on underinvested, asset-heavy areas of the market that have already weathered a downturn. These heretofore unfashionable companies are seeing ROIC improve at just the time the handful of stocks that have dominated markets for the last decade are seeing a reverse, echoing our Q2 2024 statement that “the potential appears extremely exciting for when eventually the market broadens, dollar strength weakens, value is re-rated and money flows elsewhere from the FOMO frenzy which is the AI phenomenon. Whether this will happen simply as mean reversion kicks in with the passage of time, or is precipitated by some unanticipated event (hello, geopolitics) remains to be seen, but our unconstrained and contrarian strategy offers a wide selection of idiosyncratic and uncorrelated ideas whatever the conditions.”

ⁱ Taking the average percentile of trailing P/E, forward P/E, CAPE, P/B, P/S, EV/EBITDA, Q Ratio Market Cap to GDP the US stock market is at an all time high valuation, exceeding prior peaks of 1929, 1965 and 1999. Source: Bloomberg

Chart: Source: FactSet, Hosking Partners. Total return in USD for period 30 Sep 2020 to 30 Sep 2025. HP US Banks consists of Bank of America, Citigroup, Citizens Financial Group, Huntington Bancshares, Jefferies Financial, JPMorgan Chase, Morgan Stanley, PNC Financial and Wells Fargo. Mag 7 consists of Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla. This does not represent all the securities purchased or sold. Further details of the calculation methodology and a list showing every holding's contribution to overall performance during the period is available upon request.

Note: Weights are as at 30 Sep 2025. Portfolio contribution figures based on representative account.