THE END OF AN ERA

REVIEW OF THE WEEK
6 MAY 2025

Arguably the best investor of all time has decided to retire at the end of the year. Meanwhile, UK interest rates are forecast to fall in a bid to prop up the economy.

Warren Buffett bought Berkshire Hathaway, a struggling clothing and manufacturing company, back in 1965. He says it was one of the worst investments he ever made. He ended up liquidating it 20 years later. Probably the best investment was buying an insurer in 1967. Sounds boring. But it was brilliant (and actually a bit daring and racy). Buffett wanted an insurance company because it came with a huge pot of money that he could control and direct to his uses. This money – known as the float – is all the premiums that customers pay upfront, which is used to pay out claims when they arise.

Obviously it's impossible to know exactly how much of the money will be needed and when – although you can make pretty good guesses using actuarial science. Typically, this pot of money would be invested in bonds issued by blue-chip companies and governments. That way, it earns money so that the insurer can boost its profit or reduce prices to attract more customers. What Buffett did was to use that float to buy companies that he believed were undervalued. As Buffett told Berkshire's shareholders last year: "[Insurance] is so much fun because you get the money at the start, you know, and then you find out whether you've done something stupid later on."

Rule number one of finance is to always be paid upfront wherever possible. Cash is often useful and always critical. It allows you to pay your bills on time, keep your people employed and calms any creditors you may have. It also gives you the flexibility to take advantage of opportunities when they arise.

Often, Buffett would pounce during a period of upheaval or difficulty, using the huge pile of ready money that most other investors or businesses couldn't rival, to take over quality firms that had got themselves into a pickle through too much debt or poor cashflow. With few alternatives except going to the wall, it often meant Berkshire Hathaway could pick up bargains. Then, after an injection of money to fix up their financing, they were set to make money again. And that money could then be added to the power of the float, further compounding Berkshire's ability to invest.

Over the next 60 years he built that shell of a failed manufacturer into a conglomerate of businesses, from insurance and media to construction, utilities and consumer products. That investment company's share price has since gained more than 5.5 million percent. The S&P 500 made just 39,000% over that time. You don't have to squint too hard to see Berkshire Hathaway as a metaphor, or an avatar, for the financialisation of the US economy. As the rest of the world developed, trade deepened and capital borders melted away, the US started making more money from the magic of finance, investment, software and the extraordinary leverage they offer.

Buffett became an unlikely and unassuming rock star of investment. Berkshire Hathaway annual general meetings of shareholders took on the feeling of a political conference, reunion or literary festival. Held every year in his beloved home town of Omaha, Nebraska, the AGMs became almost a pilgrimage for many. Buffett's AGM speeches also became a fixture of the financial calendar, with commentators and punters alike interested in hearing from the 'Sage of Omaha'. At this year's AGM Buffett announced he will retire as CEO at the end of the year at the ripe age of 95. He will remain as chairman.

The end of this investment era, which began with a decision to switch manufacturing assets for financial ones, comes at a time where the US government is encouraging the pendulum to reverse its swing. US President Donald Trump's tariffs policies aim to reinvigorate American manufacturing, which – if it can be done – seems likely to do so at the expense of investors and US consumers. The administration has announced it's planning 100% tariffs on US films made abroad. The details are yet to be released and it's unclear whether that would include foreign-made films by non-US companies. You would think not, because the point is to stop US firms from offshoring production to take advantage of foreign tax-breaks. Yet it can get messy: what about a Spanish language film funded by Netflix primarily for Spain, but which is then streamed to US audiences as well? How do you tariff a streamed product when it's bundled with thousands of other shows and films in a subscription service? The share prices of major US-listed film and streaming companies sank roughly 2% on the news, but have recovered somewhat, perhaps as investors ponder the difficulties of implementing such a policy.

US studios make more money at the box office and from streaming to audiences overseas than they do at home, so does it make sense to make films more expensively in the US and then potentially get hit with retaliatory tariffs on sales abroad? Or keep doing what they're doing and charge Americans more to see films and TV shows created by US companies, if that's what the administration implements? That's one for the company executives to decide.

UK INTEREST RATES EXPECTED TO FALL

The US Federal Reserve will announce any change to interest rates on Wednesday at its third meeting of the year. The central bank's benchmark overnight interest rate has been on hold at the 4.25-4.50% range since mid-December and interest rate markets imply it will remain that way till July at the earliest.

The Bank of England (BoE) follows on Thursday. Unlike its counterpart across the Atlantic, the BoE is overwhelmingly expected to cut its overnight rate by at least a quarter percentage point to 4.25%. British household and business confidence is limp, US tariffs will bite when they're implemented on 8 July. and extra payroll taxes came into force in April, so many believe the UK economy needs the boost of lower rates to avoid recession. Some argue that a 50-basis-point cut is needed. A large drop in UK inflation to 2.6% in March could give the bank room to move. However, that drop is forecast to be fleeting: it's anticipated to rise to a new peak of 3.7% in the summer.

Lower interest rates would ease strains on mortgage-holders, giving them more capacity to spend. It would also reduce the cost of borrowing for companies, which should make it more appealing to embark on new projects to make money, like expanding factories, opening new shops and investing in new technology.

Meanwhile, we're in the middle of company results season which has been relatively strong. The only fly in the ointment is that many businesses have pulled any guidance of what they expect in terms of sales and profits in the future because of the supreme uncertainty of tariffs. Of those that have issued guidance, most are negative. About three-quarters of S&P 500 companies have reported so far, the average growth in profit from a year earlier is almost 13%, much higher than expected at the outset. Yet uncertainty looms large and will remain until tariffs are finalised in early July.

*To help us complete some website maintenance we are pausing publication of the Review of the Week from now until 30 June. We will be back writing to you in early July. In the meantime, we will be reviewing our communications to improve them and make them more relevant to you. If you have any feedback about what you like, don't like, or have any suggestions to improve what we produce, please tell us by emailing **review@rathbones.com**.*

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