Global Strategic Equity

Market context

After the volatility of August, September saw markets advance, helped by a shift in central bank policy towards monetary easing. The US Federal Reserve cut interest rates, as did the European Central Bank. Meanwhile, employment data remained reasonably reassuring and inflation prospects improved as oil prices slid. At the end of the month, China unveiled its most substantial stimulus package since the pandemic to boost its ailing economy.

The Chinese stimulus, the prospect of faster interest-rate cuts and gains in risk-asset markets provided a positive backdrop for many commodities in September. The price of gold touched new highs in the month, supported by the shift into a declining interest-rate cycle and a desire for perceived safe-haven investments amid geopolitical tensions in the Middle East. Among industrial metals, iron ore and copper rose on the announcement of fresh support for the Chinese economy.

The US market saw an encouraging shift in performance away from the large technology stocks and towards a broader spectrum of the market. Over the month, most sectors rose, with the exception of energy stocks. The prospect of a better economic outlook lifted consumer discretionary, industrial and materials stocks. Relief for the Chinese property sector helped the real estate sector outperform.

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Performance

The Strategy outperformed the MSCI ACWI over the month, gross and net of fees*.

Stock selection in consumer discretionary was the leading driver of performance. Italian luxury sports car manufacturer Ferrari also added positively to performance on a strong set of results and guidance. Elsewhere, General Motors, an early cycle US rate beneficiary, recovered well in August, despite troubles at rival Ford.

In industrials, shares of Australian support services company Brambles rallied following strong full-year results which evidenced structurally higher margins and return on capital going forward. Furthermore, confident messaging on the sustainability of capital returns, a benign market environment and potential for continued positive operating leverage also helped.

Negative contributors included shares of Chinese internet and gaming giant NetEase which fell after a disappointing gaming pipeline update. In the energy sector, our strategic underweight was beneficial, but our one holding, Hess underperformed due to a combination of the falling oil prices on weaker demand and delays to the takeover by Chevron as ExxonMobil initiated arbitration on their claimed right of first refusal on the Guyana assets.

Within healthcare, not owning Eli Lilly hurt relative returns. It reported strong results and upgraded its full-year expectations for key drugs. We own Novo Nordisk in the same space.

*Where performance is gross of fees, returns will be reduced by management fees and other expenses incurred. Net performance is net of highest institutional segregated portfolio management fee.
Not all securities held have been discussed. For further information on how the overall strategy performed during the period covered, please reference the relative performance noted in the Performance review section.

Past performance does not predict future returns; losses may be made.

Outlook

We expect higher, more volatile inflation through the cycle, driving greater swings in interest rate expectations, resulting in the sort of market volatility we have seen in the last quarter. Currently, reasonable economic growth persists, bolstered by lower inflation and interest rate cuts. The first 0.5% US rate cut of the cycle has already occurred, with the bond yield curve steepening and early-cycle sectors like housebuilders performing well.

Inflationary pressures remain sticky, particularly in commodities, as the recent Chinese stimulus revives metal prices and the latest developments in the Middle East have halted the prior slide in oil prices. The market now expects another 0.5% rate cut in the US, with an additional 1% in 2025. Europe has seen two ECB rate cuts, while Switzerland and Canada also eased policy.

China's recovery remains sluggish, though recent monetary and fiscal stimulus sparked a sharp rally in its markets. Low valuations and improving momentum could offer opportunities, especially compared to expensive Indian and developed markets. However, as most of the planned initiatives are monetary in nature, in our view they are likely to prove insufficient to address China's structural issues, even if they are a step in the right direction. For the positive momentum to sustain, we will probably need to see improved economic datapoints emerging and more policy support to continue, particularly those that address structural challenges such as local government financing and fiscal reform. Meanwhile, in Japan, yen strength, rising wages, and shareholder activism create potential investment opportunities.

Geopolitical risks, including the Russia-Ukraine crisis and Middle Eastern tensions, present ongoing challenges. Elections in key regions, including the US, add to uncertainty. However, market fundamentals, not political outcomes, remain central to our strategy. The US election result could impact policy, particularly around tariffs and corporate lobbying, but sector performance has historically been unrelated to party affiliation. Consumer discretionary and technology were the best and second-best performing sectors during the Obama administration, and they were the second-best and best performing sectors during the Trump years. Despite widely disparate views regarding the sector, energy was the worst performing sector under both presidents.

Given the complex macroeconomic landscape, we advocate a balanced, multi-factor approach with a focus on stock selection and flexibility. Resources, notably materials, remain attractive for diversification, while climate-related investments offer growth potential in electric vehicles and infrastructure. Our tech holdings have driven recent outperformance, particularly in AI and data centres, though we are cognisant of valuations and potential market volatility.

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