Ninety One Global Strategic Managed

Market context

Financial assets rebounded in May due to slowing US inflation and weakening labour data, raising hopes for a soft landing. However, stickier global inflation data later in the month posed challenges. Despite this, investor confidence in rate cuts grew, bolstered by the Swedish Riksbank's first rate cut since 2016, suggesting other central banks might follow.

This backdrop was positive for global equities which delivered positive returns, with developed markets outperforming emerging markets. US, European and UK equities reached new highs; with the latter supported by strong UK GDP data. Chinese equities were mixed, with supportive economic data offset by the prospect of more US trade tariffs, particularly targeting EVs. High-yield corporate debt gained, as did emerging market debt. This was supported by a weaker US dollar which was the worst performing G10 currency during the month.

Within defensive assets, US Treasuries delivered a positive return overall, supported by less hawkish rhetoric from the Fed. Conversely, European sovereign bonds fell due to stickier inflation and stronger growth, leading investors to price in a slower rate cut cycle. In Japan, government bond yields rose with the 10-year yield above 1% for the first time since 2012. Elsewhere, the prices of global investment grade corporate debt moved higher as yields fell.

In commodities, oil prices retreated on a more positive geopolitical backdrop and increased US oil inventories, while metals had a strong month with silver posting its strongest monthly gain since November 2022 and the gold price reaching another all-time high.

For a more detailed global market background, please read our month in review.

Performance

The Strategy produced a positive absolute return and outperformed its benchmark (60% MSCI ACWI, 40% FTSE WGBI), gross and net of fees*.

Outperformance was driven by equities. Fixed income detracted from relative performance, as the Strategy's underweight US duration position negatively impacted relative performance. In May US treasury yields fell as the Fed pushed back on the prospect of rate hikes and growth and inflation data softened. Currency detracted, largely due to long US dollar positions.

We upgraded our European growth outlook based on improved data. Consequently, we adjusted the strategy's duration exposure and increased our overweight equity position versus the benchmark. This upgraded growth outlook was also reflected in our FX positions.

In May, the net equity overweight increased to c.8%. This was partly driven by a reduction in the European equity hedge positions due to our upgraded growth outlook and by additions to select North American equities. We also added an out-of-the-money call option on the Nasdaq to provide a hedge against a potential equity bubble once central banks begin easing. In fixed income, we exited and took profits on the South African government bond position prior to the domestic election. The strategy holds an overall duration overweight of 1.1 years versus the benchmark.

In currency, we reduced the Japanese yen vs. Swiss franc position due to Japan's slower-than-expected hiking cycle and improved European growth outlook. We also increased the Turkish lira exposure funded via Czech krona, given a positive evolution in fundamentals and attractive expected total return.

*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

In the US, monetary policy remains tight and will increasingly impact the economy as debts are refinanced at higher rates. However, the Federal Reserve has signalled it will cut rates later this year if growth moderates and inflation cools. US fiscal policy has remained loose, supporting economic growth, but posing some inflation risk. This combination supports a soft landing, though recession risks remain high.

In Europe, tighter policy and shorter lags due to less pandemic stimulus, more floating rate debt, and minimal fiscal support mean growth indicators are weak. We expect eurozone inflation to moderate as energy price pressures abate. We see an elevated risk of a deflationary period in the eurozone and believe that the ECB will embark on a more pronounced easing cycle than the Federal Reserve.

In China, policies appear loose but easing measures are becoming more aggressive, including fiscal stimulus and efforts to clear housing inventory. We expect policymakers to ensure a sustained recovery despite mixed growth metrics and weak inflation. We continue to believe that the Chinese economy will experience a more benign outcome than the bearish consensus suggests.

Our investment outlook is more optimistic for risk assets, especially in Asia and the US. Fixed income portfolio duration has decreased this year post a strong rally in government bonds at the end of last year and due to an increase in the probability of a US soft landing. We remain overweight in defensive duration, particularly in Europe. We prefer the US dollar over European and Asian currencies due to positive carry dynamics and potential persistent US inflation.

Specific risks: Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income.Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss.Derivatives: The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss.Interest rate: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise.Equity investment: The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company.Government securities exposure: The Fund may invest more than 35% of its assets in securities issued or guaranteed by a permitted sovereign entity, as defined in the definitions section of the Fund's prospectus.Emerging and Frontier market (inc. China): These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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