Global Equity Fund

Market context

Global equities had another strong quarter, overcoming a bout of significant turbulence at the start of August. Weak US labour data revived fears of a 'hard landing' for the US economy and, compounded by a surprise hawkish move by the Bank of Japan (BoJ), led the VIX volatility index to touch its highest level since March 2020.

However, sentiment improved as the quarter progressed, helped by the US Federal Reserve's decision to cut rates by 50bps and the BoJ's indication that further tightening would depend on financial stability. US economic data also proved to be more resilient than feared, helping global equities rise for a fourth straight quarter.

Meanwhile, China unveiled its most substantial stimulus package since the pandemic to boost its ailing economy. This helped the country's equity market post its best quarterly performance since 2009. European and UK equities also advanced albeit by a smaller magnitude. Japanese equities, however, underperformed following the BoJ's rate hike.

Looking at market leadership, the quarter saw a noticeable rotation away from technology stocks. Real estate and utilities were the top performing sectors within the MSCI ACWI, while industrials and financials also outperformed. By contrast, IT and communication services lagged after some disappointing earnings numbers called into question the elevated valuations. Energy was the weakest performer amid the sluggish economic growth outlook.

Performance

The Fund underperformed the MSCI ACWI, in what was a positive quarter for global equities.

Market rotation meant that the sectors that had contributed most to performance in the previous quarter – information technology and communication services – now became the leading detractors. Social creation website Pinterest suffered after disappointing numbers, and semiconductor giant Nvidia saw profit-taking, not helped by the delay of a new product. Profit-taking also afflicted South Korean semiconductor businesses Samsung Electronics and SK hynix, compounded by growing concern that the memory chip cycle may be peaking. An uncharacteristic narrowing of top-line guidance, flat quarter-on-quarter orderbook progression, and broader skittishness regarding AI beneficiaries and the semiconductor cycle all resulted in Synopsys lagging the market. Internet giant Amazon also saw profit-taking as a step-up in stock-based compensation, seller fee reductions for specific categories, and strategic investments raised question marks over the prior restructuring thesis. In addition, Amazon Web Services reported mildly disappointing results.

Conversely, stock selection in the industrial sector proved successful during the period. Australian logistics business Brambles was boosted by a favourable reaction to its increased dividend payout ratio target, along with the share buyback announced with full-year results. Credit rating business Transunion reported strong results and increased full year guidance, helped by a growing share of data breach remediation activity. Chinese financial Ping An Insurance rallied with the rebound in Chinese stocks, reporting strong results ahead of analyst expectations. US online real estate business Zillow outperformed following the cut in US interest rates which was viewed as a positive catalyst for housing market transaction volumes. In Europe, Spanish utility Iberdrola rose after highlighting its growing position in datacentres, and German online retailer Zalando benefited from expectations of improving sales and profitability.

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.

Specific risks.

Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income.Derivatives: The use of derivatives is not intended to increase the overall level of risk. However, the use of derivatives may still lead to large changes in value and includes the potential for large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss.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.Emerging 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.

Important information