Ninety One

Global Strategic Managed Fund

Market context

Markets performed strongly in the third quarter, but not without significant volatility. Increasingly weak US labour data and a hawkish move by the Bank of Japan (BoJ) which raised short-term rates to 0.25%, sparked a sharp global reaction and unwind of carry trades. Additionally, lacklustre earnings from big-tech companies contributed to a sizeable risk-off move, with the VIX hitting its highest intraday level since March 2020. However, sentiment improved as the quarter progressed, helped by central banks' dovish pivot including the US Fed's decision to cut rates by 50bps and the BoJ's indication that further tightening would depend on financial stability. US economic data also improved, while China unveiled its most substantial stimulus package since the pandemic to boost its ailing economy.

Against this backdrop, global equities delivered a positive mid-single-digit return, with emerging markets outperforming developed markets. Chinese equities posted the best quarterly performance since Q2 2009, returning c.20% following the significant stimulus announcements from the People's Bank of China (PBoC). Within developed markets, following a strong Q3, US equities recorded their strongest year-to-date performance of the 21st century. However, mid-quarter turmoil arose as disappointing earnings results cast doubt on big-tech company valuations and the 'Magnificent 7' momentarily moved into correction territory. While US equities did recover, there was a notable rotation away from tech stocks, with utilities the strongest performing sector. European and UK equities also advanced albeit by a smaller magnitude. Japanese equities, however, were the exception as they fell back for a second quarter following the initial rate hike by the BoJ and the subsequent Japanese yen appreciation.

Global high-yield corporate bonds also benefitted from the risk-on shift as spreads compressed and prices rose. The US dollar weakened against all G10 currencies in Q3, which supported emerging market debt, particularly local currency bonds, which advanced by almost 10% during the quarter. In commodities, the oil price fluctuated, ending Q3 down 17% at $71.77/bbl – the lowest monthly closing level since Q121. Conversely, copper prices hit their strongest level in 10 weeks following China's stimulus measures.

Within defensive assets, developed market sovereign bonds had a strong quarter as investors priced in more rapid rate cuts. Both US and euro sovereigns advanced, while global investment-grade corporate bonds saw gains, benefitting from both falling rates and tighter spreads. Following the BoJ's rate hike, the Japanese yen strengthened by +12% vs. the US dollar, enjoying its strongest quarter since Q4 2008.

Gold prices have continued to rally to new record highs, as several factors helped boost the precious metal, not least the Fed's decision to institute the first interest rate cut in 4.5 years.

Performance

The Fund delivered a positive absolute return in US dollars but underperformed its benchmark (SOFR).

The largest detractor from relative performance, was equity security selection, which was particularly evident in July. This stemmed primarily from a market rotation away from technology, which negatively impacted the portfolio's overweight positions in cyclical technology. Later, positive performance from the overweight allocation to Asia ex-Japan, which benefitted from the announcement of additional stimulus measures in China, was offset by losses from broad equity index exposure in the US as investors rotated away from mega-cap tech into more interest-rate-sensitive areas of the market.

An analysis of the portfolio with reference to the extent to which it has or has not adhered to its policy objective.

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

The Fund's fixed income allocation performed broadly in-line with the benchmark.

The currency allocation detracted, primarily due to weak performance in August, as the US dollar depreciated against the Chinese renminbi and the New Zealand dollar following disappointing US payroll data, which intensified recession fears and fuelled market expectations for imminent interest rate cuts by the US Federal Reserve (Fed). Positions in high-carry emerging market currencies such as the South African rand vs. Swiss franc and Turkish lira vs. Czech koruna provided some offset. A position in Australian dollar vs. Canadian dollar also added to returns.

The Fund's gold allocation contributed positively.

Portfolio activity

In Q3, global economies experienced bouts of volatility driven by softening macroeconomic data, recessionary concerns and evolving central bank policy. During the quarter, portfolio positioning was adjusted to adapt to these factors, with net equity exposure increased, fixed income duration reduced, and currency allocation repositioned.

In equities, the net allocation rose by 3% to approximately 67% (excluding option delta), 7% overweight relative to the benchmark. This increase mainly reflects the addition of two equity index futures: one in U.S. small-cap equities, positioned for potential upside if the U.S. market broadens with a soft landing, and the other in a U.S. semiconductor index, added to capture an attractive entry point amid late-July volatility. The semiconductor sector remains a key focus, given its expected benefit from long-term structural growth trends.

In fixed income, the portfolio maintained an overall duration exposure in line with that of the benchmark.

In currency, the portfolio used the volatility in August to add positions in the US dollar and South African rand against the Swiss franc, and Australian dollar against the Canadian dollar. The latter performed well and was closed in September as asymmetry diminished. Additionally, long US dollar exposure was reduced in September through the closure of a long US dollar position vs. the British pound. With the start of coordinated monetary policy easing across the US and China, the outlook for the US dollar has become less certain, with such environments historically putting depreciation pressure on the dollar. In addition, a long position in the Japanese yen against the Swiss franc was added, anticipating policy divergence between the two central banks over the next 12 months.

Outlook

In the US, monetary policy remains tight as economic activity moderates. Consequently, the Fed has begun cutting interest rates and has indicated limited tolerance for further labour market deterioration. Financial markets remain volatile, with investors weighing the risks of a sharper slowdown and concerns over the Fed being 'behind the curve' against the potential for a soft landing supported by rate cuts and easing conditions. Fiscal policy remains loose, bolstering growth, while the upcoming November election is likely to heighten uncertainty and market volatility. Although we see an elevated risk of a more significant slowdown, ongoing monetary easing, fiscal support, and a relatively resilient growth outlook lead us to expect a soft landing as the central scenario for the US.

In Europe, we believe policy remains tight, with shorter lags than in the US due to lower pandemic stimulus, higher floating-rate debt, and limited fiscal support. Growth indicators have been weak, trending below expectations and nearing recession in some countries, while shorter-term inflation measures are now in line with the ECB's target. We expect eurozone growth to stay subdued and inflation to ease as energy pressures decline. Given structural headwinds in the eurozone compared to US tailwinds, we anticipate the ECB's easing cycle will be more pronounced than the Fed's.

In China, policy appears loose, though material easing has yet to occur. However, easing measures are becoming more assertive, with new initiatives announced over the past month, sparking a rally in Chinese and Hong Kong equity markets. We expect policymakers to take further action to support a recovery, although the path to recovery is likely to be uneven. While inflation is still weak, base effects should offer more forward-looking support. We believe the Chinese economy will fare better than the bearish consensus suggests.

Our central investment roadmap, as outlined above, leaves us somewhat more optimistic about the prospects for risk assets, particularly in Asia and the US. In fixed income, we maintain a solid allocation to defensive government bonds, as recession risks remain elevated. This positioning also provides dry powder to deploy during episodes of volatility in the coming six months. In currencies, we retain a preference for the US dollar over European and Asian currencies as a diversifying portfolio position, given positive carry dynamics and our expectation that easing will be more pronounced in these regions than in the US.

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 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. Interest rate: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. Liquidity: There may be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated.

Important information