Ninety One

Global Franchise Feeder Fund

Market context

Global equities ended the final quarter in negative territory, driven by a sharp December sell-off following the Federal Reserve's cautious outlook on interest rate cuts for 2025. The central bank projected only two rate cuts for the year, down from the four previously anticipated. This dampened the positivity seen in the previous month, when Donald Trump's decisive victory drove global equities higher. The November rally, led by Trump's home market, reflected investors' view that some of the new administration's policies, such as corporate tax cuts and lighter regulation, could boost domestic growth.

There was significant divergence among geographies, with US equities rising to another all-time high in November before trailing off in the final month of the year, albeit still up for the quarter. Taiwanese equities were another positive, supported by its tech-heavy benchmark. However, there were pockets of weakness in other markets at risk of proposed US tariffs, including China and Mexico, which fell over the quarter, as did European car manufacturers. France was a notable laggard after the government of Michel Barnier fell following the first successful no-confidence vote since 1962 after his proposed budget failed to pass.

Geopolitics was in focus too, with tensions between Ukraine and Russia showing little sign of a resolution. In the Middle East, a ceasefire agreement was reached between Israel and Hezbollah. At the sector level, consumer discretionary, communication services and tech all performed strongly, however materials lagged, as did healthcare stocks, which were hit by the nomination of vaccine sceptic Robert Kennedy Jr to head the US health department. The interest-rate-sensitive real estate sector also struggled amid concerns about tighter monetary policy.

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Performance

The portfolio delivered a positive absolute return and outperformed the benchmark.

Stock selection in financials and positioning in industrials contributed at the sector level, offset in part by stock selection in IT and positioning in consumer staples.

Payments provider Visa posted robust fiscal Q4 results, led in part by an increase in cross-border volumes. More recently, the company benefitted from the positive sentiment following Trump's victory and the projected softer regulatory back drop. Booking Holdings advanced after reporting Q3 bookings that exceeded consensus, driven by a reacceleration in Europe, a sign that consumer demand didn't slow as much over the summer as some investors had feared. Booking also raised its guidance for the full year.

Verisign had a strong quarter driven by robust results, ICANN announcing the renewal of its .COM registry agreement with the company, and in December, Berkshire Hathaway disclosing an increase to its stake. Software company Autodesk contributed over the quarter, especially earlier on with some sell side upgrades. Although there was some pull back in performance following its Q3 2025 results, positively Autodesk beat on profits and raised its full year guidance.

Heart valve maker Edwards Lifesciences – a recent addition to the portfolio – outperformed, with no clear catalyst. In December the company reaffirmed its sales growth.

Turning to detractors, clinical research company ICON fell after cutting its profit guidance for the full year after Q3 results fell short of expectations. We don't believe these near-term results hinder the longer-term investment case. Equally, the stock was impacted following vaccine-sceptic Robert Kennedy's appointment as secretary of Health and Human Services. Positively, ICON continues to take share and biotech funding has improved; we retain conviction in the stock.

Lithography equipment maker ASML had a weaker quarter, primarily driven by the company reporting weaker-than-expected Q3 bookings and reduced 2025 guidance. While disappointing, this choppy quarter should not obscure ASML's leading market position and many of the near-term headwinds are now priced in. Skincare producer Beiersdorf detracted, masking robust Q3 results, which were reassuring in the face of weaker results elsewhere in the sector. Encouragingly, Beiersdorf reported double digit growth in the dermatological segment.

Consumer staples company Nestle lagged the broader portfolio, following softer Q3 results and reduction in guidance. Encouragingly, we saw a reacceleration from the Nestle Health Science division. Overall, we believe Nestle continues to have an above average category exposure versus its peers, and the company is taking decisive action to protect profits, illustrated by the 2.5 billion-euro efficiency program announced in November.

Not holding Tesla was also headwind to relative returns.

Outlook

For 2025, we anticipate a more challenging year for equity markets. Sentiment has driven global equities to elevated levels in the short term, but with commensurately higher valuation and concentration risk. The AI theme, while captivating investors, has faced challenges in end market monetization, raising questions about the sustainability of hyperscaler capex. A more uncertain growth environment, rising geopolitical tensions, and potential policy shifts from incoming President Trump likely introduce added volatility and risk. Those assuming another year of bumper returns from growth and momentum investing might be disappointed, therefore, if growth does not materialise to justify high market valuation multiples.

To navigate this landscape, we believe a focus on truly exceptional companies with durable competitive advantages and attractive valuations is best placed. We expect compounding earnings to be a more significant driver of shareholder returns in future and these high-quality businesses, resilient to economic cycles and geopolitical risks, to continue to offer long-term value for patient investors. Furthermore, if the change in presidency proves to be a headwind for falling inflation in the world's largest economy, as many fear, quality businesses are well placed given their pricing power and balance sheet strength. We believe those investors who execute correctly on buying businesses that have realisable growth – not the promise of growth – on reasonable valuations with low funnels of uncertainty, should benefit in this environment.

Disclaimer

Further information

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