



Global Franchise

Market context

Global equities had another [strong quarter](#), overcoming a bout of significant turbulence at the start of August. Weak US labour data put the 'hard landing' thesis for the US economy back on the table which, 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, when concerns around the pandemic were at their peak. However, sentiment improved as the quarter progressed, helped by central banks' dovish pivot including 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. Looking at market leadership, Q3 saw a noticeable rotation away from tech 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, while energy was the weakest performer amid the sluggish economic growth outlook.

Performance

The Strategy delivered a positive return in absolute terms but lagged the MSCI ACWI over the quarter in US dollars, gross and net of fees¹. Stock selection in IT and communication services detracted at the sector level, offset in part by a lack of exposure to energy and a combination of positioning and stock selection in financials.

Lithography equipment maker ASML was a relative detractor amid broader relative weakness for technology stocks. In addition, there were geopolitical rumblings that the US and Netherlands are looking to further restrict China's access to Western capital equipment. We believe the impact of these restrictions will likely be modest for ASML, which will retain its dominant position in the semiconductor value chain. The company has demonstrated its operational strength throughout the past year by delivering robust results.

Clinical research company ICON delivered mixed Q2 results, with the revenue guidance midpoint reduced, but the company is operating well, with net new bookings up for the quarter y-o-y. The company reconfirmed its annual outlook in September. Software company Intuit slipped back, masking a strong fiscal Q4 performance, particularly from QuickBooks. Guidance for 2025 was also ahead of consensus expectations.

Samsung Electronics drifted lower given weaker sentiment to the broader IT space over the quarter. The company's results at the end of July were solid with strong growth in memory sales. Microsoft slipped back, on little specific news. At the end of July, Microsoft delivered a decent fiscal Q4 with all the key variables moving in the right direction.

More positively, tobacco producer Philip Morris International contributed after raising its forecast for annual profit growth on higher demand for its Zyn nicotine pouches. Cybersecurity company Check Point Software rose after delivering a robust quarter in which

¹ 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.

billings rose +10% on the prior year, revenue +7% and EPS +8%. Annual guidance was reiterated, and the company also announced Gil's CEO successor, Nadav Zafir, well ahead of its previously articulated timeline. Gil is expected to remain heavily involved as Executive Chair.

St. James's Place delivered a credible update, helping alleviate concerns around the new Consumer Duty regulation, charging structure changes and advice provisions. Flows were strong, despite a very challenging environment. SJP also instilled confidence by announcing a cost saving program to help deliver an ambitious medium term target of more than doubling cash flow. Credit rating agency Moody's reported stellar Q2 results, amid a surge of new issuance fuelled in part by tightening spreads and the impending US election in Q4. Moody's also upped guidance for FY24 and increased its buyback from \$1 billion to \$1.3 billion given the extra cash.

Not owning NVIDIA also helped relative performance.

Outlook

As we approach the closing stretch of 2024, risk-on sentiment has continued to dominate markets. However, the outlook remains uncertain as we have seen a spectrum of factors driving broader market performance over the past quarter, ranging from the 'hard landing' fears that reemerged at the start of August, the unexpectedly substantial stimulus announced in China in September through to tensions bubbling away in the Middle East. The picture is also unclear over the longer term. Although the Federal Reserve has begun reducing rates, they remain elevated with the ensuing debate on whether there will be a harder or soft-landing continuing. However, chair Powell has been clear that the central bank will move slowly if inflation remains sticky, which is a distinct possibility.

With an increasingly uncertain outlook, a market that remains very concentrated, and valuations appearing stretched, we believe a diversified portfolio of quality companies with proven earnings resilience is as important and relevant now as it has ever been. Our holdings are performing well from an earnings and free cash flow perspective, and [it is this that drives long-term share price performance](#). There are a number of potential catalysts that could shift the momentum in this market towards more resilient fundamentals. Weakening growth is still a real possibility given a softer consumer backdrop and there have also been early signs of a broadening out of the market away from those stocks most supported by the sentiment around AI earlier in the year.

Against this backdrop, we believe that investors will turn their focus to robust business fundamentals. Quality companies' earnings and cash flows should prove to be more resilient through periods of uncertainty, offering portfolios a less volatile outcome. They are also well positioned for a higher-rate environment, given their balance sheets contain less debt than the wider market. We remain comfortable that the quality attributes we seek (enduring competitive advantages, dominant market positions, strong balance sheets, lower cyclicity, low capital intensity, sustainable cash generation and disciplined capital allocation) are all well suited both to current conditions and for uncertain times ahead. The companies we own have invested substantially to reinforce their business models, with significant exposure to key long-term trends such as cloud computing, artificial intelligence and data, payments and fintech, and health and beauty.

Specific risks.

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