TALARIA

CERTAINTY EMPOWERS YOU

November Monthly Commentary

December 10, 2021

Equity market performance in November was heavily influenced by renewed lockdown concerns, especially across Europe, and the discovery of the new 'Omicron' COVID-19 variant. These developments weighed heavily on stocks most exposed to recovery/re-opening dynamics with non-US shares, cyclicals, and value underperforming as equity investors moved to de-risk portfolios.

The other factor contributing to value's underperformance was the flattening yield curve. This was a function of both longer dated yields moving lower as investors sought refuge in the sanctuary of government bonds and shorter dated yields moving higher on the back of persistent inflation concerns. While the path of inflation remains uncertain, what we do know is that it remains stubbornly high (US inflation jumped to a near 30-year high of 6.2% in October) and it is beginning to negatively impact consumer confidence.

Despite US markets outperforming, absolute performance was tepid. The NASDAQ was only up 0.3% while the S&P500 and S&P600 Small Cap Index were down 0.8% and 2.4%, respectively. Stocks in Europe fared a lot worse with the German DAX amongst the worst performing bourses, down 3.8% as surging COVID cases drove lockdown fears. The UK FTSE and French CAC were also lower, down 2.5% and 1.6%, respectively. Lockdown concerns also saw the Japanese Nikkei 225 fall 3.7% in November. In contrast, the Shanghai Composite was well supported, up 0.5%.

Tech was the standout performer, up 2.6% for the month, and the only sector to finish in positive territory. This is not entirely surprising given Tech's perceived invulnerability to COVID and its status as a lockdown beneficiary. As bond proxies, Tech shares also benefitted from rising bond prices.

In contrast, Energy was the worst performer, down 7.4%, as oil prices fell ~20% on COVID headwinds and news that several of the largest economies had or were set to release a portion of their strategic oil reserves. Financials were not far behind, down 6.6%, as the flattening yield curve and general risk-off sentiment drove a lot of selling pressure.

Consistent with risk-off positioning, the AUD fell 5.2% against the USD as commodities also weakened with the Bloomberg Commodity Index down 7.3% in November. Against this backdrop, VIX jumped almost 11 points to close at 27, which the Fund took advantage of to contract its exposure at more attractive rates.

Our holding in Canadian-based Wheaton Precious Metals (WPM) was a meaningful contributor to performance. As a precious metals streaming company, WPM employs a unique business model. In return for an upfront payment to help develop a new mine, WPM acquires metal production (mainly gold and silver) from that mine at highly discounted prices to prevailing market rates. Therefore, WPM has no exposure to cost inflation and almost 100% exposure to higher gold/silver prices and production growth.

NOVARTIS

The Fund also recently gained exposure to Swiss-based, global pharmaceutical giant, Novartis. Based on its current share price and the outlook for its existing drug pipeline, we think the market is ascribing little 'new science' value to its almost ~$10bn a year R&D spend. Hence, any success on new drug developments should result in material upside for shareholders. That said, even in the absence of any new drugs, we think there is minimal downside given Novartis' solid balance sheet, strong cash flows from existing drugs and decent yield support (~4% dividend yield with a well-covered and growing DPS).