Monthly Market Commentary

Global equity markets enjoyed a broad relief rally in May, driven by easing trade tensions and a decline in near-term recession fears. Whether this improved sentiment proves durable remains to be seen.

Other asset classes were less sanguine. The US dollar failed to bounce (DXY down 14bps), and Treasury yields continued to rise. As noted in last month's commentary, this combination of currency softness alongside higher bond yields, has a feel of emerging markets. At its core, the concern is that high public debt becomes unsustainable when interest rates exceed economic growth.

Earnings season was broadly well received, with 77% of S&P 500 companies beating estimates. Microsoft was a standout, with strong Q3 results driven by 35% Azure growth and disciplined cost control. Meta also impressed, announcing further AI investment and cost reductions to offset macroeconomic pressures. Yet performance was indiscriminate, big tech names that disappointed still performed well, with correlations amongst this cohort approaching record levels.

US large caps led equity gains, with the NASDAQ and S&P 500 up 9.6% and 6.15%, respectively. Small caps also fared well with the S&P 600 Small Cap Index up 5.1%. In Europe, Germany's DAX rose 6.7%, buoyed by easing trade tensions and higher expected fiscal spending, particularly on defence. The UK FTSE and French CAC 40 lagged in relative terms but still gained 3.3% and 2.1%, respectively. Asia also participated: Japan's Nikkei 225 rose 5.3%, and China's Shanghai Composite gained 2.1%.

Sector performance reflected the tech-led rally, with Information Technology, Communications, and Consumer Discretionary all rising more than 7%. Healthcare was the weakest sector, down 3.8%, dragged lower by scrutiny over drug pricing and a very poor month for UnitedHealth. Within a week, the company suspended FY25 guidance, its CEO resigned, and allegations of Medicare fraud emerged. All other sectors posted gains.

The Australian dollar rose 0.5% against the USD. Commodities were generally weaker, with the Bloomberg Commodity Index down 0.9%, despite a 4.4% rise in WTI oil prices. The VIX declined 6.1 points to close at 18.57. Meanwhile, 10-year US Treasury yields climbed to ~4.6% mid-month, before ending the month at 4.4%, up 23bps.

Top contributors to the Fund's performance included US-based fertiliser producer CF Industries, French catering company Sodexo, and Canadian energy firm Cenovus. Detractors included French pharmaceutical company Sanofi and US reinsurer, Everest Group.

The Fund initiated a position in Canadian Utilities (CU), a Calgary-based provider of gas and electricity services, with around 91% of earnings derived from Alberta. Like many peers, CU's earnings are tied to its Regulated Asset Base (RAB), which is expected to grow by roughly 5% over coming years as it expands its gas transmission network. With a solid balance sheet (~60% debt to equity) and a ~5% dividend yield, CU offers a combination of modest growth and dependable income that we find attractive at current levels.