Monthly Market Commentary

Most global equity indices finished the month broadly unchanged but the point-to-point differences disguised a volatile month which saw sell-offs, recoveries and a pronounced rotation in leadership.

In our recent September quarterly report, we drew attention to the highly unusual discount at which stable or defensive stocks were trading versus the market. This has, to some extent, reversed with profit taking, monetary policy uncertainty, and some weak economic updates (softer labour trends, weaker consumer confidence) driving selling in cyclicals and growth stocks.

Concerns around the AI complex also contributed to the rotation, namely the ecosystem's growing circularity, eye-watering capex, and aggressive multiples. Not even strong earnings from NVIDIA (Q3 sales +62%) could turn the tide, with shares in the AI poster child down 12.6% for the month. Other notable laggards in the area included Microsoft and Amazon with shares down 5.0% and 4.5%, respectively.

Against this backdrop, the NASDAQ broke its seven-month streak of gains, finishing down 1.5%, while the S&P500 barely delivered performance, eking out a 0.13% gain. In contrast, small caps were notably stronger with the S&P600 Small Cap Index rising 2.5% in November. Breadth also improved with the S&P500 Equal Weighted Index rising 1.7%.

In Europe, political and fiscal concerns weighed on both sides of the English Channel with France's CAC40 and the UK's FTSE flat for the month in local currencies. Germany's DAX closed modestly lower, down 0.5% in local currencies. Reversing some of last month's stellar gains, Japan's Nikkei225 closed down 4.1% with profit taking and AI crosswinds contributing to selling pressure. Elsewhere in Asia, China's Shanghai Composite Index was also weaker, finishing down 1.7% for the month.

November saw notable dispersion within sectors. Information Technology was the biggest laggard, falling 4.5%, along with Industrials and Consumer Discretionary which fell 1.6% and 1.7%, respectively.

Health Care was the standout, rising 8% with fellow defensive sectors, Utilities and Staples also delivering good performance, up 2% and 3.8%, respectively.

Communications was another source of performance, up 4.2%, aided by strong gains in search giant, Alphabet after Berkshire Hathaway disclosed a new position in the Google parent. Commodity price strength aided Materials, which also delivered solid performance for the month, up 4%.

The AUD fell 0.1% against the USD, while commodities were stronger. The Bloomberg Commodity Index rose 2.9%, as strength in precious metals more than offset weakness in oil with WTI falling 4%. VIX also fell 1 point to 16.35 while yields on 10yr US Treasuries were lower by 6bps to close at 4.01%.

Pharmaceutical giant, Roche was the biggest contributor to Fund performance in November with shares benefitting from positive drug trial updates and the broader rally in Health Care. Medical technology group, Medtronic was the second largest contributor with its stock up strongly following a solid Q2 result where management raised FY26 guidance. French-based rewards group, Pluxee was the biggest detractor during the month with shares falling on the back of adverse regulatory announcements in Brazil.

In terms of new positions during the month, the Fund gained exposure to AO Smith, the largest water heater manufacturer in the US. In addition to attractive industry dynamics, the top three players have more than a 90% share, AO Smith has a history of generating strong cash flows alongside high returns of around 35% ROIC with a net cash balance sheet. With the recent de-rating largely driven by weakness in the new housing market, we think the stock now offers good value with potential share price outcomes in the mid-$80s over the next few years, approximately 25% upside.