

Monthly Market Commentary

Global equity markets continued performing well through October, supported by easing US-China trade tensions, lower rates, a good reporting season, and more AI euphoria. Against this backdrop, large-cap growth outperformed alongside a deterioration in breadth.

Japan's Nikkei225 was the standout performer amongst developed indices, rising 16.6%, as investors cheered a falling JPY (helps exports) and the promotion of Sanae Takaichi to PM. As a supporter of 'Abenomics', markets are anticipating a renewed period of ultra-easy monetary policy, aggressive fiscal stimulus, and more structural reforms.

US large caps also performed strongly, with the NASDAQ and S&P500 up 4.7% and 2.27%, respectively. Both brushed aside credit wobbles, some hawkish Fed language, and a US government shutdown, to reach new record highs. While angst over rising AI costs weighed on Meta's stock, investors remained broadly supportive of the AI complex following a spate of deal-making, with the bulk of index gains attributed to tech-stocks.

However, performance outside of tech was more mixed with the S&P500 Equal-Weighted Index falling 1% in October. Pockets of weakness included consumer exposed stocks, most notably restaurant operator, Chipotle. Its stock fell 18% after issuing poor Q4 guidance on the back of lower foot-traffic and input cost pressure. Other examples of weakness included distributor, Fastenal – a good proxy for the industrial cycle – where management flagged pricing pressures. Small caps, more sensitive to macro conditions, were also lower with the S&P600 Small Cap Index down 0.9% in October.

In Europe, most bourses delivered good performance in local currency terms. The UK FTSE rose 3.9% thanks to outsized exposure to higher commodity prices with France's CAC40 also up 2.9%, despite ongoing political dramas. Germany's DAX lagged, rising only 0.3% (down 1.6% in USD terms), while China's Shanghai Composite Index closed up 1.9%.

On a sector basis, performance was led by Information Technology, up 6.5%. Other sectors that did well included Utilities and Health Care, up 2.9% and 3%, respectively. Exposure to private credit woes weighed on Financial Services, which fell 2.1%. Ongoing weakness in chemicals and packaging contributed to Materials falling -2.8%, with oil price weakness also seeing Energy decline by 0.5%.

The AUD fell 1% against the USD while commodities were broadly stronger with the Bloomberg Commodity Index up 2.6%, despite a 2.2% fall in WTI Oil prices. The VIX rose 1.16 points to close at 17.44 along while yields on US 10yr Treasuries fell 7bps to 4.08%.

The Fund's holdings in US goldminer Newmont and Swiss-based Nestle, were the two biggest contributors to performance in October. Given Newmont trades on a ~9% FCF yield (at current spot prices) with no balance sheet risk, it remains a material holding for the Fund. We took advantage of the strength in Nestle's stock following a well-received Q3 result to exit on valuation grounds.

Recruitment firm Robert Half, catering group Sodexo, and US-based reinsurer Everest Group were the top three detractors to performance in October, all derating on underwhelming results. In the case of Everest, a disappointing Q3 result and news that it was selling the retail insurance business (~15% of the group premiums and the source of Q3 weakness), saw its stock fall ~11%. However, retail was at best a break-even operation, with the rest of the business generating low-to-mid teens ROE that continues to trade well. Hence, with the stock now trading at ~0.76x FY26e Book Value, alongside ongoing buybacks, we think the shares offer an excellent skew for shareholders and have added to the position. We also continue to hold Robert Half and Sodexo on valuation grounds.