

## Monthly Market Commentary

Global equity markets delivered modestly positive returns in the fourth quarter of 2025. A partial reversal of the momentum trade in November and December was the most noteworthy development. But, despite the wobble, markets across the globe ended the year near all-time highs.

The momentum trade took a pause in the quarter. Questions around the pace of AI adoption relative to the enormous CAPEX spend led to a partial rotation out of tech. The main beneficiaries of the rotation were the healthcare sector as well as out of favour European shares. Gold prices climbed to new highs while oil prices fell further. The Japanese yen weakened significantly against all major currencies, which, in turn, gave rise to a very strong performance for Japanese equities in local currency.

By region, US markets were the relative laggards with the S&P 500 rising just +2.3% and the NASDAQ advancing +2.6% over the quarter. European equities did better, with the Stoxx 600 gaining +6.1%, supported by strength in the UK. The FTSE 100 rose +6.2%, while France's CAC 40 gained +3.2% and Germany's DAX increased +2.6%. Asian markets were led by Japan, where the Nikkei jumped +12%, supported by the appointment of a new prime minister and a weaker yen. China's Shanghai Composite posted a more modest gain of +2.2%, reflecting ongoing caution around the domestic economic outlook.

Sector performance reflected a partial reversal of the momentum trade. Healthcare was the best outperformer, rising +10.3% on the back of solid earnings and regulatory clarity. Materials also generated solid gains of +5.0%, supported by higher gold and silver prices. On the other end of the spectrum were sectors associated with the momentum trade. IT and Consumer Discretionary, posted only very modest gains of +1.3% and +0.7%, respectively. Energy also lagged the broader market, up just +1.2%, reflecting a weaker oil price.

Market volatility declined further during the quarter, with the VIX falling from 16.3 to 15.0. Bond yields edged higher, with the US 10-year Treasury yield rising 2 basis points to 4.17%. The US dollar strengthened modestly, with the DXY index up +0.6%, while the Japanese yen weakened 6% against the US dollar. Oil prices declined sharply, falling -7.9% over the quarter, weighing on energy markets but providing support to inflation-sensitive sectors.

The strongest contributors to portfolio performance during the quarter were Roche, Bayer and Newmont. Bayer benefited from a positive development around its long-running Roundup glyphosate litigation in the United States. Roche benefitted from a successful Phase 3 drug trial, while Newmont, as the largest gold miner in the world, rallied on the back of a higher gold price and its positive implication for company earnings.

The main detractors from portfolio performance were Bunzl, Sodexo and CF Industries. Bunzl underperformed amid concerns around margin pressure (muted top line pricing and rising SG&A), while Sodexo lagged following disappointing FY26 guidance. Unfavorable gas price developments contributed to weakness in CF shares. We continue to hold the shares as valuation remains compelling across all three companies.

During the quarter, the Fund initiated a new position in A. O. Smith, the largest manufacturer of hot water heaters in the US. The company combines a strong competitive position with a conservative balance sheet and high returns on capital.

The Fund exited Nestlé, Ambev and Cenovus on valuation grounds following strong prior performance.