

US MARKETS DEFY THE DOUBTERS

US markets rally despite economic fears

Uncertainty around tariffs limited market moves in the first half of July, as US President Donald Trump reiterated his intention, in the absence of any trade deals, to enforce high tariffs on all trading partners after August 1st. However, beginning with Japan, the final weeks of the month saw a flurry of trade deal announcements. Sometimes lacking much in the way of hard details, the “deals” seemed to secure lower than threatened tariff levels, in return for increased market access for US companies as well as promises on investment into the US. Following Japan, the next big deal was with the European Union, with markets generally perceiving the EU having made major concessions to achieve its deal. The tariff deals, along with the view that the US generally came off well in the negotiations, led to a rally in US stocks. US market performance was also aided by strong quarterly earnings from mega-cap technology companies such as Nvidia, Microsoft and Meta, which all shrugged off broader macro-economic concerns to post strong results.

The US market was the best performing major market in the month, with the MSCI US index returning 4.88%, compared to 3.88% for the MSCI World index. European markets had muted returns, with European industry seeing little to gain and much to lose from the tariff deal. The MSCI Europe index rose only 0.73% in the month.

Reflecting the view that the US economy would survive the tariff shocks better than other markets, the Dollar snapped its 2025 losing streak by strengthening against the Euro in the month, although it remains well below the levels at the start of the year.

At the end of the month, the US Federal Reserve defied presidential pressure and kept interest rates on hold despite apparent softening in the US economy, citing inflation concerns. The lower end of the Fed benchmark rate remains 2.25% above the benchmark rate of the ECB, which also paused its rate declines in the month.

Large cap tech drive market performance

Market performance was skewed towards US large cap technology companies in the month, with this skew having an impact on portfolio relative returns. The portfolio returned 2.32% in the month, below the 3.88% return of the MSCI World. The outperformance of companies such as Nvidia and Microsoft, with high valuations and high weights in the index was the major source of underperformance in the month as the fund does not have exposure to these companies.

The MSCI World Value index rose by 2.99% during the month. The underperformance of the fund relative to the MSCI World Value was also largely due to some negative stock selection returns. The portfolio's tilt towards more cyclical companies benefitted the fund in the month as these performed well with an improving view on the US economy, however the mid and small-cap tilt of the fund contributed to the underperformance.

Along with Information Technology, Energy and Industrials were also strong performing sectors. Consumer Staples and Health Care were the only global sectors to experience negative returns during the month as the market rotated away from these sectors to more economically sensitive sectors.

Despite stock selection being a negative in the month, largely due to the large index positions that the fund does not hold, the fund did have exposure to some companies with strong performance in the month. E-commerce company eBay was a strong performer in the month as the company reported stronger than expected earnings and also raised its sales outlook for the next quarter. Swiss bank UBS also had good performance in the month as it reported strong earnings and also rising capital levels, lowering concerns related to the potential need for more regulatory capital. US computer storage company, Western Digital, had a strong month of performance as its earnings benefitted from growing demand from cloud-based businesses for its storage products.

Strategy

Global Value invests in global equities from developed markets, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and regions.

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