

US UNCERTAINTY WEIGHS ON MARKETS

Trump's unpredictability drives market concerns

US president Donald Trump maintained his frenetic pace of announcements and counter-announcements in August, with his attacks on respected institutions unsettling markets. At the beginning of August, the US president fired the Bureau of Labor Statistics commissioner, Erika McEntarfer, after downwards revisions to prior months employment figures, showed a softening of the US economy. After this assault on the BLS, the next focus was repeat target, the US Federal Reserve, with one governor stepping down early and renewed pressure on Fed chair Jerome Powell to cut rates. The cumulative impact of these actions was to raise market concerns that some of the pillars behind the US economy's long term outperformance would not survive this administration intact.

Markets ended the month broadly flat, with the MSCI World rising by 0.33%. However the US market declined in the month, with the MSCI US index falling by 0.33%, as the signs of a weakening economy and falling faith in respect for institutions were partially offset by a rising expectation that the Fed would reduce rates at its September meeting. European equities were relatively stronger than the US in the month, with the MSCI Europe index rising by 1.15%. Political uncertainty in France and higher than anticipated inflation in Germany negatively impacted equities in those markets, however the United Kingdom, Italy and Switzerland were all good performers. The Swiss market was a strong performer despite the country having a US tariff placed on it at significantly higher levels than that placed on the European Union.

Bond markets also demonstrated declining belief in the US, with short rates for US treasuries declining, mirroring the equity market view that a rate cut is imminent, but long rates sharply increasing suggesting that borrowing costs for the US are being impacted by the President's actions. After recovering some of its lost ground in July, the Dollar continued its decline in August, reflecting further concerns over the independence of the Federal reserve.

Value outperforms as growth stocks pause

The portfolio returned 3.20% in the month, outperforming the MSCI World return of 0.33%. The largest contribution to the outperformance was the style of the fund, with the value style performing well in the month. Growth stocks underperformed value stocks in the month, with concerns rising over the growth rate of artificial intelligence. Performance of the mega-cap Magnificent 7 grouping was mixed, with some components such as Apple and Tesla having very positive performance in the month, whereas others such as Nvidia and Meta were weaker. The portfolio also outperformed the MSCI World Value index which rose by 1.29% in the month. Relative to MSCI World Value, the outperformance of the fund was also due to the style of the fund. The fund has a greater exposure to the value style than the index, and this benefitted the fund in the month. Additionally, the fund's exposure to small-caps and more cyclical names were an additional positive.

Consumer Discretionary, Health Care and Materials were the best performing sectors in the month, with consumer and materials stocks in particular benefitting from the outlook for lower rates in the US. Utilities, Information Technology and Communication Services sectors were the weakest sectors in the month, due to the markets increased scepticism over AI growth, which these three sectors have exposure to, either directly or through the power needs of this technology.

Within the portfolio, German health care company Fresenius had strong performance in the month as the company reported strong quarterly earnings and raised its revenue guidance for the year. Sony, a Japanese electronics company, also performed well during the month after announcing strong earnings including strength in its games business. US semiconductor Intel was a strong performer in the month after the US government made a strategic decision to own equity in the company to support the development of a domestic semiconductor manufacturing industry.

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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