

POWELL DELIVERS, RIGHT ON TIME

Fed begins easing cycle

After months of deliberation, ever increasing Presidential pressure and growing signs of a faltering labor market, the US Federal Reserve lowered interest rates by 25b.p.'s at their September meeting. However the Fed chair, Jerome Powell, cautioned those looking for further easing in the rest of the year that the balance between supporting a weakening labor market and the need to keep a lid of inflation, remained challenging. Not all, even within the rate-setting Federal Open Market Committee shared Powell's caution. Stephen Miran, appointed to the FOMC by President Donald Trump, voted for a 50b.p. cut.

Markets also cared little for Powell's quest for balance, with consensus hardening over the expectation for at least two more cuts before the end of the year. The decline in rates provided a fillip to equity markets, which had changed little in the first half of the month. The boost to markets from the Fed cut led to strong equity performance in the second half of the month. The MSCI World Index rose by 2.82% in the month, with the US market the strongest performing major market. The MSCI US index returned 3.24% in the month. Europe was more muted, with the MSCI Europe index rising 1.59% in the month. Within Europe there was significant dispersion of returns. French equities shrugged off political uncertainty to post good returns for the month, whereas German equities were weak as Eurozone inflation surprisingly rose in the prior month.

The Federal Reserve interest rate reduction had a minimal impact on short term US treasury yields, as bond markets had anticipated the easing, however longer-term yields also declined, reflecting the weakening macro. The dollar also declined in the month, extending the declines already experienced in the year.

Commodities were also weak in the month, as lower demand for oil as well as continued excess supply continued to depress oil prices.

IT and Defence stocks fueled European markets

The portfolio returned 0.54% in the month, and underperformed the MSCI Europe Index return of 1.59%. The portfolio performed in line with the MSCI Europe Value index which rose by 0.60%. Relative to the MSCI Europe, both the fund and the Value Index were negatively impacted by Industry allocation due to both being underweight IT stocks and the defense theme. Relative to MSCI Europe Value, a meaningful positive contribution from stock selection was offset by the fund's small cap bias, as European small cap stocks generally underperformed.

Information Technology was by far the strongest sector as it benefitted from continued market enthusiasm behind Artificial Intelligence and the large benchmark holding, Dutch ASML was up 30% in the month. Industrials performed strongly as well driven mostly by the Aerospace and Defense industry which benefitted from President Trump saying that Ukraine could recoup all of its territory from Russia. Energy remained a weak sector as the oil price remained depressed due to concerns over the global macroeconomic outlook. Defensive sectors such as Communications and Consumer Staples were also amongst the weakest performing sectors in the market as the Federal Reserve easing boosted the outlook for more cyclical stocks globally.

Within the portfolio, Nokia was among the largest contributors to performance thanks to a few analyst upgrades and a broad shift in investor optimism regarding the company's potential in high demand areas such as AI and Cloud. Not owning ASML was the largest individual detractor but there were also weak performance among the portfolio holdings. The worst performing stock was Daimler Truck where a combination of a disappointing quarterly result and uncertainty from new U.S. tariffs sent the shares down more than 12%.

Strategy

European Value invests in European equities, 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 countries.

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