

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.

Small-caps struggle as large-caps dominate

The portfolio returned 1.96% in the month, slightly underperforming the MSCI World return of 2.82%. The fund style was a slight headwind to performance, despite the value style of the fund being a positive contributor to performance. Small-cap stocks struggled in the month as mega-cap technology stocks once again came to the fore, and the headwind from the fund's small-cap tilt offset the benefit from the value exposure. Industry allocation was also a negative for the fund. Stock selection was however a strong positive contributor in the month, largely offsetting the negative contribution from small-cap's. The MSCI World Value index returned 1.34% in the month, underperforming the MSCI World significantly despite the value style being a positive contributor, as the value index industry allocation hurt its returns. The fund's outperformance against the value index was due to a positive contribution from the fund having a greater value exposure than the index, partially offset from by the fund's small-cap exposure. Against the value index selection was also a strong contributor.

Information Technology and Communication Services were the strongest sectors in the month, with both sectors benefitting from continued market enthusiasm behind Artificial Intelligence. Energy remained a weak sector as the oil price remained depressed due to concerns over the global macro-economic outlook. Defensive sectors such as Utilities 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.

Within the portfolio, SanDisk and Western Digital, two computer storage companies (Western Digital had spun-off SanDisk earlier in the year) were both strong performers as expectations for storage demand grew with the increasing build-out of servers supporting artificial intelligence. Intel, a US base semiconductor company was also strong as first the US government and then Nvidia committed to investments in the business to aid the development of the company's US based chip fabrication business.

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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