

WHO NEEDS STATISTICS ANYWAY?

Markets power ahead despite US data vacuum

After seven-year break, the government shutdown show returned to the US this month as Democrats refused to support Republican budgetary plans without an extension to health care insurance subsidiaries that were slashed by this summer's "Big Beautiful Bill", President Trump's signature tax and spending bill. Without agreement the US government officially shut down on October 1st, leading immediately to recriminations from each side, followed by threats of Federal employee lay-off's and a gradual shut down of key government functions, including the release of much macro-economic data.

Markets took the absence of any meaningful economic data for the world's largest economy as an opportunity to post a significant rally. The MSCI World Index rose by 3.84% in the month. The US market rose by 4.20% in the month, as strong earnings at some of the mega-cap AI related Magnificent 7 led to strong performance for those names. Nvidia achieved the distinction of a \$5 trillion market capitalization, leaving relative minnows such as Microsoft, Apple and Alphabet trailing at only \$3 or \$4 trillion in market capitalization. US markets were not even derailed by Jerome Powell, the Federal Reserve Chair, who when delivering another rate cut at the end of the month, cautioned that further rate cuts this year were not a "foregone conclusion".

However, the US wasn't the best performing major market in the month. Japan had a very strong month after its new Prime Minister, Sanae Takaichi, overcame some initial coalition struggles to become elected by the country's parliament. The first ever female Japanese PM, her perception as pro-growth led to a surge in Japanese equities in the second half of the month. Europe was a relative laggard, rising by only 2.56% in the month. European performance was dragged down by Germany, with the MSCI Germany declining in the month as the enthusiasm over the new Chancellor's economic policy waned in the face of continued economic stagnation.

Mega-cap tech dominates the market

The portfolio returned 2.49% in the month, below the 3.84% return of the MSCI World. The strength of a few, extremely large, artificial intelligence related stocks dominated market returns in the month. Stocks such as Nvidia, Amazon and Alphabet all posted strong gains in the month on increased AI related enthusiasm. These companies, all highly valued by the market, are not in the fund, and the lack of exposure to these companies impacted relative performance.

The MSCI World Value index returned 1.30% in the month. Relative to the MSCI World Value, the portfolio outperformance was driven partly by the style of the fund and partly by idiosyncratic stock selection. The fund benefitted from the value style, as value was a positive factor in the month, and the fund has more exposure to the value factor than the index. Additionally, the fund benefitted from a more pro-cyclical bias relative to the index. The fund's modest small-cap tilt was a detractor to relative performance as small-cap's continued to underperform.

Information Technology was the strongest performing sector in the month, with performance driven by the previously discussed mega-cap technology companies. The Health Care and Consumer Discretionary sectors also had good performance in the month. Financial stocks were weak during the month, with US banks particularly struggling after several regional banks announced rising credit losses.

A number of fund holdings had strong performance in the month. US computer memory company SanDisk had very strong performance in the month as expectations of demand for its products from AI related companies grew. Nokia also performed well as it announced an investment in its business by Nvidia to aid the company's position in AI related products. US electrical distributor, Wesco, was also a strong performer as the company reported better than expected earnings due to good demand from the development of new data centers.

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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