

THE BOND MARKETS AWAKEN

Bond yields jump on inflation fears

Equity markets struggled in the first half of the month as the war between the US and Iran dragged on for a seventh month, with markets showing concerns over oil prices, inflation and global trade. However, markets ended the month with positive returns as a rally in AI related stocks in the second half of the month lifted indices.

Bond markets however experienced their worst month in several years, as fears over inflation and continued deficits by governments around the world led to long term yields rising to levels not seen for several decades. US and Japanese government bonds were amongst the harder hit. The spread of French government bonds over German bunds hit its highest level since the 2011 Euro debt crisis. The European Central Bank, Bank of Japan and US Federal Reserve all raised rates during the month in an attempt to tame the inflation caused by the rising oil price, however markets still anticipate more rate increases in the coming months.

Within equity markets, Japanese and US markets were strong, with both markets benefitting from having a number of AI related names. European markets however were weak, with France and Germany notably soft. French markets were weighed down by increased political risk focused on next year's Presidential election. In addition, the admission by the French Finance Minister that the budget deficit would exceed the budgeted 5% led to the rising government bond spread over bunds and further depressed equities. German equities were also notably weak due to political weakness, with weak election results casting doubt on the political longevity of Chancellor Friedrich Merz and his economic reforms.

Crude oil finished the month back over \$100 per barrel, a consequence of the continued supply constraints from the Middle East. However, with the US midterms nearing, political focus turned to the cost of diesel, which rose to over \$6 per gallon in the US and even higher in Europe, hurting sectors such as transport and agriculture.

Markets dominated by a few winners

The portfolio declined by 1.45% in the month, underperforming the 1.05% return of the MSCI World. Market performance was concentrated in a handful of large benchmark names that the fund does not own, such as Meta, Nvidia, Apple and Intel. Strong performance by these stocks accounted for a significant portion of fund underperformance. The value factor was relatively neutral during the month, although the small and mid-cap tilt of the fund was a headwind as the strong market performance was focused in large and mega-cap names. The MSCI World Value was relatively flat in the month, returning -0.04%. However, the value index was aided by having large positions in a few of the strong performing AI related names, most notably Meta. Not owning Meta accounted for over half the underperformance of the portfolio relative to the MSCI World Value.

The market concentration was also illustrated by sector performance during the month. Only Information Technology (with names like Intel) and Communication Services (with names like Meta) had meaningfully positive returns during the month. Other than Health Care which ended the month with a very small positive return, every other market sector was negative. The worst performing sectors were Materials, Consumer Discretionary and Financials, all of which suffered from rising fears over higher rates and a weakening economy.

Despite weak performance relative to the indices due to not owning the large benchmark names that performed well, the fund did have a number of names that had strong performance during the month. Hewlett Packard Enterprises, a US technology company, benefitted from the rally in AI related names, as the company is involved in helping corporations implement AI strategy. US agricultural equipment company CNH rallied, as strong crop prices increased expectations for an equipment replacement cycle. Despite weakness in Financials during the month, Japanese insurer Tokio Marine was a strong performer as rising yields increased expected returns for the insurer's investment portfolio.

Strategy

Ethical 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. The fund applies exclusions as detailed in Methodology Document for Sustainable Investing.

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