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October monthly commentary

November 9, 2022

October was a strong month for equity markets with a broad-based rally underpinned by a sense that central bank interest rate rises would begin moderating. This was reinforced by lower-than-expected rate rises in both Australia and Canada accompanied by more dovish commentary, and more mixed economic data. Performance was also helped by the fact that sentiment was very negative going into the rally.

Within US markets, the S&P500 and S&P600 Small Cap Index led the way in terms performance, up 8% and 12% respectively. While the NASDAQ was a relative laggard, it too managed to deliver good absolute performance, up 4% for the month. European markets were very strong with the German DAX up 9.4%, and French CAC40 up 8.8%. However, political instability and a series of government policy errors weighed on UK markets with the FTSE up only 2.9%. Performance in Asia was more mixed. While Japan's Nikkei225 was up 6.4%, China's Shanghai Composite fell 4.3% driven by more lockdown fears and uncertainty around the 'market friendliness' after the 20th Party Congress.

While all sectors finished up in October, performance between sectors differed significantly. Energy was the best performing sector, up an incredible 20% on stronger oil prices following OPEC's decision to make substantial production cuts. In addition to cyclical tailwinds, oil price dynamics continue to benefit from structural factors, after years of underinvestment in new production.

At the bottom of the ladder were tech-heavy sectors, Communications (+1%) and Consumer Discretionary (+1.8%), which were weighed down by a series of poor results from mega-cap names, including Meta, Alphabet and Amazon. All were characterised by misses and poor guidance suggesting not even these names are immune to inflationary pressures (energy and wages) and slowing consumer spending.

More broadly on result season, key takeaways so far include continued price increases, lingering inflation and supply chain pressure and material FX headwinds. All of these are translating into a higher-than-average proportion of companies withdrawing or failing to provide any guidance.

While the AUD was flat against the USD, it was a volatile month for the currency, which was down almost 5% at its weakest. The Bloomberg Commodity Price Index finished up 1.7% while WTI was up almost 9%. Yields on US 10-yr Treasuries rose 22bps while the rally in equity markets saw VIX fall 5.7 points to close at 25.8.

Strong performers which the Fund has exposure to were US-based reinsurer, Everest Re and biopharmaceutical giant Gilead Sciences. Despite the strength, we continue to maintain exposure to Everest Re given the tailwind to investment income from rising interest rates, as well as expectations that the upcoming reinsurance pricing cycle will be very favourable. Shares in Gilead benefitted from a very strong set of results alongside positive developments on patent extensions. However, we will wait for more attractive entry points before adding to any exposure.

HENRY SCHEIN®

The Fund recently gained exposure to US-based Henry Schein, the largest distributor of consumables, equipment, and software to dental practices globally. In addition to its dominant market position (~35% share), its excellent track record on M&A, a strong balance sheet, very stable customer base and ability to pass on inflationary pressures are all reasons we believe Henry Schein can continue delivering EPS growth consistent with its long-term average of ~13%. Given an attractive starting valuation (currently trading on a 7% Free Cash Flow yield), we think the stock is well placed to deliver good upside for shareholders.