TALARIA

CERTAINTY EMPOWERS YOU

November monthly commentary

December 14, 2022

Equity markets continued to perform strongly in November, encouraged by a better-than-expected US inflation release. Statements from the Federal Reserve excited investors who took the view that inflation may have peaked, and that aggressive rate rises will end sooner than previously expected. As some commentators wryly noted, a prospective 50 basis point rise in rates is the new cut.

In the real and less benign world, US core CPI remains high courtesy of the services' component within which rent inflation is notable. US housing conditions are rapidly cooling, the yield curve remains deeply inverted, and the lagged effect of previous rate rises are only starting to weigh on broader demand (there was another 75 basis point rate hike this month). All in all, this is a far more precarious and intricate backdrop to navigate than recent share price strength would suggest.

Despite good absolute performance, US markets lagged most global peers with the S&P500 and NASDAQ up 5.4% and 4.4%, respectively. Performance was a lot stronger across Europe thanks to some relief from economic data (PMIs and consumer confidence up on recent lows), and gas security concerns dissipating. The German DAX was the best performer, up 8.6%, followed by the French CAC40 and UK FTSE, up 7.5% and up 6.7%, respectively.

Performance in Asia was more mixed. Currency headwinds and its recent status as a more defensive market weighed on Japan's Nikkei 225, which rose only 1.4% for the month. That said, in USD terms the Nikkei225 finished up 8.1%, demonstrating how material FX swings were during the period. In contrast, the Shanghai Composite finished up a strong 8.9% on prospects of China's COVID-19 measures being eased and more government support for its beleaguered property sector.

On a sector basis, performance was led by Materials which finished up 14% driven by positive news flow out of China (COVID and property sector support). Financial Services, Industrials, and Utilities were also solid performers, up 8.7%, 8.9% and 7.6%, respectively. Consumer Discretionary also did well, up 4.8%, despite the lack of participation in the rally by Amazon, the shares of which were flat. Energy was the weakest performer, up only 2.7%, as global recession fears weighed on oil prices, and warmer weather and healthy storge levels in Europe dampened seasonal gas demand.

The AUD rose 6% against the USD, helped by a broad retreat in the buck on perceptions of an easing rate outlook, and the prospects of improving demand from China for commodities. Overall, the Bloomberg Commodity Index finished up 2.4%, while WTI Crude Oil fell 6.9%. Against a backdrop of strong equity market performance, the VIX fell 5 points to close at 20.5. Yields on 10yr Treasuries fell a material 44bps.

FEMSA

The fund's holding in Mexican-based retailer, Fomento Mexicano Economico (FEMSA) was a meaningful contributor. In addition to its strategic holdings in global brewer Heineken (14.8%) and the world's largest Coke bottler, Coca-Cola FEMSA (47.2%), FEMSA owns one of the world's largest convenience store networks with some 20,000 'OXXO' branded sites across Mexico. This network is delivering strong same-store sales and good margin expansion. There are meaningful value creation levers including an ongoing store and digital payment platform rollout, share simplification program, and greater M&A discipline. Hence, we still think there is decent upside to the stock, even after share price strength.

BUNZL

The fund recently gained exposure to UK-based Bunzl, one of the world's largest distributors of hygiene, safety, packaging, and cleaning supplies. Bunzl is a well-run business, having delivered EPS growth every year from 2005 to 2020 (it fell only 2% in 2021). This reflects the combination of strong organic trends courtesy of operating in staple-like categories with solid pricing power, complimented by a highly accretive M&A strategy. Given a solid balance sheet with minimal net debt (leverage is half what it was at the onset of the GFC), we think the company is well placed to keep funding its M&A pipeline, deploying capital 'opportunistically' should cyclical headwinds intensify.