Whispers of a soft or even no-landing got louder this quarter. Investor sentiment rebounded sharply leaving behind the September 2022 lows, banking sector worries were quickly forgotten, and complacency ran high, at least if indicators like the VIX count for anything. Headline equity indices again delivered strong returns. But those returns were mostly driven by the seven US mega-cap tech names. A basket of global leading economic indicators continued to indicate recession accentuated by continued weakness in commodity prices. Japanese equities were strong as the return of inflation in the context of a series of positive developments sparked a broad-based rally.

Narrow stock leadership was most pronounced in the US. The tech-heavy NASDAQ and the broad-based S&P 500 delivered strong gains, 12.8% and 8.3% respectively. Meanwhile the equalweighted S&P 500 was up just 3.5%, underlining the fact that seven mega-cap tech stocks were responsible for most of US equity returns. Japan was the standout region – the Nikkei 225 index soared 18.4% partly on the back of a sustained rise in inflation. The rest of Asia underwhelmed with China's Shanghai Composite down -2.2% and Hong Kong's Hang Seng down –7.3%. After a strong start to the year, European indexes hardly budged in the second quarter with the German DAX and French CAC up, 3.3% and 1.1% respectively.

Against this backdrop, the Fund delivered a positive quarter, gaining +3.45% while maintaining substantially lower market risk. Positive portfolio breadth (27 stocks advanced and only 6 declined), a material position in Japanese equities and positive idiosyncratic stock events drove the performance.

The Talaria Global Equity Fund paid a June 2023 quarterly distribution of 14.45 cents per unit taking its 12-month income return to 8.09%.

Growth sectors that are dominated by mega-cap tech stocks again delivered the biggest gains, extending a trend that started at the beginning of the year. Information technology (Apple, Microsoft, Nvidia are ~46% of the index), Consumer Discretionary (Amazon, Tesla are ~30% of the index), and Telecom Services (Meta, Alphabet are ~50% of the index) were up 14.5%, 10.1% and 9.3%, respectively. All remaining cyclical and defensive sectors were a mixed bag. Energy stood out for the laggards at -1.3% on the back of lower oil and gas prices while industrials performed best, delivering +6.1%.

The VIX was sitting at just 13.6, 27% lower than in March and more than 50% lower than in September 2022. The Bloomberg Commodities index and Brent Crude Oil were down -3.8% and -6.6% respectively. US long-term rates remained high with the 10-year yielding 3.84%.

French food services and facilities management firm Sodexo was the Fund's top performer this quarter. The company continued to deliver top line growth while expanding the margin, proving to be a beneficiary from higher inflation. Mexican convenience store operator Femsa also contributed materially to quarterly performance on the back of strong execution of its previously announced restructuring plan. After a weak first quarter, pharmaceutical giants Roche, Johnson and Johnson and Novartis rebounded strongly as well.

The list of detractors was again short this quarter with just one holding, Chinese online retail giant Alibaba, materially contributing to negative performance. Alibaba announced management changes that were not taken well by the market. Moreover, post-reopening disappointment and general economic weakness in China have weighted on company growth prospects. High share price volatility did not help either. We maintain our positive view however given the depressed valuation which already prices in a poor outlook.

redeia

During the quarter, the Fund initiated new positions in Spanish utility provider Redeia (see stock in focus) and global insurance giant Chubb (an insurance operator commanding superior margins while maintaining a very conservative investment portfolio). The Fund also re-initiated positions in Everest RE (a re-insurance company) and Maersk (a shipping company). The Fund exited three positions – all on valuation grounds. Total, an oil major, and Asahi, a brewer, had strong runs and reached our target valuations. While Intel, a chipmaker, has seen a deterioration in its cashflow outlook that contributed to us exiting the position.