Monthly Market Commentary

Global shares rose again in July as equity investors continued to take a benign view of the outlook. A mostly good earnings season helped. More than 80% of companies reporting had beaten consensus by month end, engendering optimism even though overall EPS forecasts for the S&P 500 in 2024 and 2025 continue to decline.

Concern over matters such as lacklustre Chinese growth, the impact of falling inflation on margins and the lagged effect of tighter monetary policies continued to be water off a duck's back as far as most stock markets were concerned.

Government bond and equity markets ended the month at either end of a barbell. Yields on the 10-year treasury closed nearly at 4% continuing the rise from the early April low. It may be that fixed income investors are increasingly concerned about fiscal balances but there may also be a general upward repricing of risk even as shares trade on ever richer valuations.

Against the risk-on equity backdrop, US small caps led performance with the S&P600 Small Cap Index up 5.4%. While US large caps lagged in a relative sense, absolute performance was solid as the NASDAQ and S&P500 both rose, 4.0% and 3.1%, respectively. European bourses also delivered reasonable performance with the UK FTSE ahead 2.2%, followed by the German DAX and French CAC, up 1.9% and 1.3% respectively. In Asia, the Chinese Shanghai Composite Index rose 2.8%, while the Japanese Nikkei 225 took a breather finishing modestly lower at -0.1% for the month.

Performance has also been broadening in terms of sectors, with all finishing higher in July as even the more defensive sectors, such as Staples, Utilities and Healthcare enjoyed gains of around 2%. Outperformers included Materials and Financials, up 4.7% and 5.2%, respectively, while strong moves in oil prices (tightening supply) saw Energy post gains of more than 6%.

Communications was the only other segment to deliver gains greater than 6% driven by well-received results from mega caps Meta (Q2 beat with Q3 guidance ahead of expectations) and Alphabet (sales strength, cost focus). That said, there are clear headwinds, with results from two of the largest advertising groups, Omnicom, and Interpublic, showcasing just how fast things are slowing in more discretionary corners. Organic sales in Omnicom's US business slowed from 5% in Q1 to just 2.4% in Q2, while Interpublic cut its FY organic sales guidance from 2-4% to 1-2%.

The AUD rose 0.8% against the USD, while commodities performed strongly with the Bloomberg Commodity Index up 5.8% and WTI Oil up 15.8%. VIX was broadly unchanged at around 13, while yields on US 10yr Treasuries rose 12bps to finish at 3.96%.

In terms of new positions, the Fund recently gained exposure to US-based Chubb, the world's largest listed property/casualty insurer. In addition to a long track record of superior underwriting (Chubb's loss ratio has averaged ~7.5 percentage points better than peers) and industry leading Return on Equity of ~16% (vs ~7% for peers), near-term earnings are also benefiting from a strong repricing cycle.

Assuming that Chubb can maintain its strong underwriting discipline and not incur significant losses on investments, which is our view on both, then compound returns of 11-12% a year are expected from today's starting share price. For context, over the past seven years, Chubb has managed to grow its EPS and BV/Share by ~13% p.a.

Our holding in US-based fertilizer group, CF Industries, was one of the biggest contributors to performance with the combination of a supportive starting valuation (~1x estimated replacement cost) and strength in soft commodities driving its strong share price. Following this rally, we view risk/reward as more balanced, and on valuation grounds, have written calls on our entire CF position post month end.

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