Monthly Market Commentary

While currency movements impacted regional equity market returns on a USD basis, in local currency terms, January was generally a good month for most indices, with some even breaking previous index level records.

Chief amongst them was the S&P500 which set all-time highs for five straight trading sessions before finishing the month up 1.6%. Even the NASDAQ, which was up 1% in January, is now only a few percentage points off its prior all-time high set in November 2021. However, outside of US large caps performance was lacking, as profit taking saw the S&P600 fall 4%, having rallied more than 20% off its October 2023 lows.

Japan's Nikkei225 was also busy hitting multi-decade highs with an eye-popping 8.4% gain in January, thanks to a weaker yen and expectations of low rates continuing, pushing the index above 35,000 for the first time since 1990.

In doing so, the Tokyo Stock Exchange also regained the top spot in Asia by market capitalisation, displacing China's Shanghai bourse which had its worst January since 2016, falling 6.4% to hit a five-year low. More disappointing macro updates, deflationary pressures, ongoing property sector issues, and a view that authorities will need to do more to support growth, weighed heavily on Chinese equities where even valuation arguments failed to provide much support (China's Shanghai Composite Index is currently trading on a prospective P/E of less than 10x).

France's CAC40 dominated European league tables after a strong set of Q4 results from luxury goods giant LVMH pushed the index to an all-time high and ending the month up 1.5%. While the German DAX also managed to deliver positive returns, finishing up 0.9%, the UK FTSE meaningfully underperformed as a stronger-than-expected domestic inflation print and weakness amongst commodity-linked stocks saw the index fall 1.3%.

At a sector level, the absolute standout performers were Information Technology and Communications, both up more than 4% courtesy of their overweight exposure to US mega-cap tech stocks. Healthcare, Finance and Staples also delivered positive returns up, 2.6%, 1.4% and 0.5% respectively. Materials and Utilities fared the worst, down 4.7% and 3.4% respectively.

The AUD fell 3.6% against the USD with the Bloomberg Commodity Index broadly flat for the month. In contrast, some good economic updates from the US and rising geopolitical tensions in the Middle East, helped boost WTI Oil prices by 5.9%. VIX rose modestly by 1.9 points to close at 14.3 while yields on 10yr US Treasuries remained largely unchanged at 3.9%.

The Fund's biggest contributors and detractors for the month mirrored regional equity market trends. Chinese e-commerce group, Alibaba, was the biggest drag, while the Fund's holdings in Japanese telco NTT, and French companies Sanofi and Sodexo were the biggest contributors, in that order. Amongst the top five contributors was also the Fund's position in Japanese banking group, Sumitomo Mitsui Trust and US pharmaceutical giant, Johnson & Johnson.

In terms of new positions, the Fund recently gained exposure to US-based medical devices company, Medtronic plc. As one of the world's largest manufacturer of products to help treat a range of ailments including diabetes, heart, spine, and orthopaedic conditions, the group has enjoyed GDP+ levels of organic growth at very high margins. While operational issues have plagued the group in recent years, there are signs these are now in the rearview mirror with the stock continuing to trade on reasonably supportive relative multiples to peers. Hence, should management keep delivering on operational improvements we think the stock still has some upside on offer.

Talaria Asset Management
330 Collins Street
Melbourne, VIC, Australia 3000
info@talariacapital.com.au
talariacapital.com.au