Monthly Market Commentary

April was a weak month for global equity markets with most indices ending a rally that had started in November of last year.

A series of hotter than expected inflation prints sent government bond yields surging, upending the consensus view on rate cuts, and putting downward pressure on stock market valuations. From an anticipated three rate cuts by June earlier in the year, most investors moved to expecting only one 25bps cut by year end. Inflation fears were also stoked by supply risks emanating from tensions in the Middle East.

An underwhelming Q1 GDP print in the US further complicated the outlook for equities, raising the prospects of both stubborn inflation and weak underlying growth delivering an era of stagflation. In this environment equities have tended to underperform as margins come under pressure with little ability to pass through rising input costs.

US markets underperformed their regional counterparts with the NASDAQ and S&P500 down 4.4% and 4.2%, respectively, as investors overlooked what has so far been a reasonable earnings season (~80% of companies beating Q1 EPS estimates). Against the risk-off backdrop, small caps performance was even worse with the S&P600 Small Cap Index falling 5.7% in April.

European bourses fared a lot better with the UK FTSE the standout performer, finishing up 2.4% in April. Across the continent most other major indices fell with the French CAC and German DAX both down 2.7% and 3.0%, respectively. In Asia, Japan's Nikkei225 fell 4.9% as the widening interest rate differential drove more yen weakness, raising concerns of imported inflation impacting domestic consumer sentiment. In contrast, China's Shanghai Composite rose 2.1% following what has been a very challenging period.

Underperformance of US mega-cap tech stocks weighed on the Consumer and Tech sectors with both falling by more than 5%. Amongst the biggest detractors was Meta, which saw its shares drop by more than 10% on results after issuing weaker than-expected revenue guidance. Industrials, Financials and Healthcare were also lower, down 3.1%, 3.9% and 4%, respectively. Staples did well in a relative sense, down only 1.6%, while Energy and Utilities both rose 0.3% and 0.8%, respectively.

In terms of currencies, the AUD fell 0.7% against the USD. However, such a move paled in comparison to the weakness in the Japanese Yen (JPY) which fell 4.1% against the USD to hit levels last seen in 1990. Commodities were stronger with the Bloomberg Commodity Index rising 2.2%, despite the 1.5% fall in WTI oil prices. As mentioned earlier, yields on 10yr US treasuries rose 48bps to close at 4.7%, with VIX also higher by 2.6 points to finish the month at 15.7.

The two biggest contributors to performance in April were the Fund's holdings in Chinese eCommerce giant Alibaba, and French pharmaceutical group Sanofi. Global catering group Sodexo was also a meaningful contributor with its shares performing strongly after a solid set of H1 24 results. On the back of better pricing trends, management raised FY organic sales guidance to the upper end of the previous range (~8%), while also lowering the FY tax rate, all of which implied a ~6% upgrade to FY24 EPS consensus. The company also demonstrated good cost management with H1 margins up ~40bps. All of this suggests the company is well on track to achieving its FY25 targets which we think could result in share price outcomes >€100 over the next few years (25% upside).

In terms of new positions, the Fund recently gained exposure to German company Brenntag, the world's largest distributor of specialty and industrial chemicals. Brenntag has grown solidly over the years, thanks in part to an active M&A program, having spent almost €2bn on approx. 100 tuck-in acquisitions since 2010. The net of all this has contributed ~3% to sales growth per annum and given group incremental returns in the mid-teens range, a highly effective strategy at creating shareholder value. The business also generates substantial cash flows courtesy of its asset-light business model (i.e. no manufacturing sites) and exhibits very low levels of cyclicality, noting that EBIT only fell 3% during the GFC. Given these attractive attributes, as well as limited balance sheet risk, we think Brenntag makes for a compelling investment opportunity with our bottom-up analysis suggesting shares could be worth ~€99/share over the next few years, ~30% upside from current prices.

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