Monthly Market Commentary

On the face of it, August was an unremarkable, positive month for global equities. However, the headline numbers masked considerable activity. Wild price swings across major indices and a spike in volatility were symptomatic of a market seeking a clearer direction in the face of a worsening economic outlook. Above all, investors sought stability.

Equity leadership continued its shift towards companies in sectors that offered more predictable earnings, solid balance sheets and lower reliance on future growth to justify valuations. Signs of weakening global demand pushed the price of oil and commodities down. Softening labour markets in America nudged rate expectations lower, with the USD notably weak against a basket of currencies. The Japanese yen was particularly strong.

In the US, investors rotated towards the large-cap stocks of more stable companies, favoured tech stocks less and shunned small caps. The broad-based S&P500 was up 2.3%, ahead of the tech-heavy Nasdaq, up 0.6%, and well ahead of the mid-cap S&P600, down -1.6%. European markets delivered small but positive results with the continent-wide Stoxx 600 up 1.3%. Regionally, the DAX performed best with a positive return of 2.2%, the French CAC was up 1.3% while the UK's FTSE100 index was barely up at +0.1%.

In Japan, the Nikkei was down by a spectacular -19.5% early on in August but ended the month down just -1.2%. The culprit was a hawkish BOJ that triggered a spike in the yen and a carry-trade unwind. The BOJ eventually backtracked on its rhetoric, reversing most of the losses. Elsewhere in Asia, the Shanghai Composite stood out as particularly weak and was down -3.3%, continuing its slide as China grapples with deepening economic woes.

Global sector performance reflected the shift in leadership towards stability. The best performing sectors were Healthcare, Consumer Staples and Utilities, delivering +5.4%, +5.2% and +4.3%, respectively. Growth sectors that are hosts to the big tech names were up only marginally, with IT and Communication services up by +1.4% and 1.7%, respectively. Consumer discretionary was up just 0.6%, reflecting weakening fundamentals for consumer facing stocks. Energy was the only sector in the red, down -3.7% as the oil price continued falling.

The AUD had a very strong month, gaining 3.4% against the USD driven by divergent interest rate differentials. WTI Oil continued to slide lower, falling 5.6% in August after a similar decline in July. Volatility was on a rollercoaster, with the VIX starting the month at 16.4, then hitting 38 on the 5th of August before retreating down to 15, 1.4 points lower than it started. Yields on 10yr US Treasuries fell 13bps to 3.90%.

The top contributor to the Fund's performance this month was Secom, a Japanese security provider. The company announced a price increase of 8% on its commercial security services offering, triggering an increased confidence in the earnings profile going forward. Another top contributor to performance was Bunzl, a global distributor headquartered in the UK. A strong earnings report and an upgrade to forward guidance boosted the shares.

FEMSA, a Mexican retailer, was the only material detractor to performance this month. This was almost entirely driven by the continued weakness in the Mexican peso, which depreciated by almost 9% relative to the AUD. We sold calls on the shares in July and are looking to exit the position.

This month the Fund exited NN, a Dutch insurance business, on valuation grounds. The fund initiated a new position in Randstad, a global staffing business. The shares offer an attractive risk/reward skew given its depressed valuation despite potential cyclical risks. The business has a very flexible cost base and a strong track record of managing costs. A solid balance sheet also means the business can keep funding shareholder returns (buybacks and special dividends) should a P&L weakness persist.

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