

Monthly Market Commentary

Concerns over US debt, optimism on the US economic outlook, and rising odds of a Trump administration characterised by fiscal expansion, all contributed to surging US government bond yields through October, alongside a stronger US dollar. Compared to movements in currencies and bonds, global equities took a back seat, with most indices finishing lower for the month.

In US markets, small caps saw the steepest declines, with the S&P 600 Small Cap Index down 2.7%, while large caps fared somewhat better: the NASDAQ and S&P 500 dropped 0.5% and 1.0%, respectively. European markets were generally weaker, led by the French CAC40 (down 3.7%), followed by the UK FTSE (down 1.5%) and German DAX (down 1.3%). Asia showed mixed results, with Japan's Nikkei 225 up 3.1% despite some political challenges, while China's Shanghai Composite fell 1.7% as stimulus optimism faded.

By month end, over 70% of S&P 500 companies had reported earnings with three broad trends standing out.

Firstly, Magnificent 7 stocks continue to drive the bulk of headline earnings growth. Excluding these, Q3 earnings grew only 1.9% year-on-year. Secondly, thanks to greater sensitivity to macro headwinds and rates, smaller companies are doing it tougher than large caps with S&P400 Mid Cap earnings down 2.27% on a trailing 12-month basis. The decline in profits has been even more pronounced for the S&P600 Small Cap Index where earnings have fallen 6.7% on a trailing 12-month basis. Thirdly, companies more exposed to non-US markets are performing relatively worse. Most notably, global cosmetics group Estee Lauder saw its shares plunge 21% due to weak earnings, withdrawal of guidance, and a dividend cut, thanks to worsening consumer sentiment in China.

By sector, Communication Services led with a 1.2% gain, while Energy and Financials were slightly positive, up 0.1% and 0.5%, respectively. Other sectors ended lower, with Materials down 5.8%, followed by Healthcare and Staples, which declined by 4.9% and 4.7%, respectively.

The USD strengthened notably in October, with the DXY Index up 3.2%. The AUD dropped 4.8% against the USD, likely influenced by weaker commodity prices, with the Bloomberg Commodity Index down 2.2%. However, oil prices defied the broader trend, with WTI crude up 1.6%. October also saw heightened volatility, with the VIX rising 6.4 points to close at 23.2. In credit markets, US 10-year Treasury yields surged 50 basis points to end at 4.28%, marking one of the largest selloffs since 2022.

In terms of new positions, the Fund recently invested in Amdocs, a US-based leader in billing and customer relationship tools for the telecom sector. Amdocs provides critical infrastructure that telcos rely on for billing and customer interaction. With high switching costs and mission-critical services, Amdocs maintains a strong market position, translating into steady financial performance. Since 2010, the group has achieved approximately 3% organic growth, with stable margins around 16% due to its flexible cost base. Over 75% of sales are from long-term contracts, which provides revenue stability, though recent softness in consulting has pressured its share price. Given the business's underlying strength, we believe this to be temporary and have taken the opportunity to buy shares at attractive prices. Our fair value estimate for the shares is around \$106, which is roughly 15% above current levels.

German chemical distributor Brenntag was a major detractor in October, reflecting broader weakness in the chemicals sector. Conversely, catering company Sodexo was one of the biggest contributors to the Fund's performance after FY24 results came in at the high end of guidance. Sodexo also dispelled M&A rumours and gave an encouraging FY25 outlook, projecting ~6% organic growth and a ~35 basis point margin improvement. We find the shares compellingly valued and will continue to hold.