Monthly Market Commentary

US equity markets outperformed in November as a GOP electoral sweep fuelled hopes the new US administration's pro-business agenda will be quickly enacted. Another Federal Reserve rate cut, and more encouraging economic data also contributed to investor demand for US shares, funded in part by selling non-US equity holdings.

Against this backdrop the S&P500 posted its best month of 2024, rising 5.7% and setting new record highs. While the NASDAQ narrowly missed on resetting record levels, it too delivered a strong performance, rising 6.2% to post its best month since May. However, all this pales in comparison to the strength in US small caps with the S&P600 Small Cap Index surging 10.8% in November, also setting new highs.

Performance in Europe was more muted with the German DAX and UK FTSE up 2.9% and 2.2%, respectively. In contrast, the French CAC fell 1.6% due to ongoing political instability. Equity markets in Asia were also mixed with the Japan's Nikkei225 falling 2.2%, while China's Shanghai Composite Index rose 1.4%.

Electoral considerations also drove sector performance. Growing ties between Tesla founder Elon Musk and the new administration, saw its shares surge 38%, contributing to Consumer Discretionary rising 9.3% in November. Financials were also up strongly as prospects of less regulation and a more accommodating M&A regime saw the sector rise 7.8%. In contrast, Health Care stocks failed to participate in the broader rally with the sector down 1% in November. Materials were also lower by 1.0%, while defensives Utilities and Staples lagged in a relative sense, up 1.5% and 2.3%, respectively.

The USD continued to strengthen in November with the DXY Index up 1.8%. The AUD fell 1.1% against the US currency as commodities were broadly weak. The Bloomberg Commodity Index was flat for the month while WTI crude fell 2.0%. Clarity on US election outcomes also contributed to a sharp fall VIX, down 9.6 points to close at 13.5. Yields on US 10yr Government Bonds also fell 12bps to 4.16%.

Roche and Sanofi fell on no specific news, mirroring broader weakness in Health Care, while Bayer was weaker after it downgraded guidance and gave a cautious outlook at its Q3 results. Litigation issues still plague the group, and earnings visibility is low, however Bayer's underlying cash generating abilities remain solid. A newly adopted capital allocation framework should also see cash prioritized for debt-pay down, something we believe will result in meaningful equity build-up over the medium-term.

The biggest contributor to performance for the month was US-based fertilizer giant CF Industries. Following a good Q3 result, its shares continued performing strongly as natural gas prices internationally outpaced North American levels driving spreads wider. Natural gas is the key feedstock for CF's fertilizer production. Given its proximity to low-cost US natural gas hubs, CF is also one of the world's most cost advantaged producers. Hence, CF's earnings benefit when industry cost curves steepen, usually brought on by international natural gas prices rising faster than US prices.

The Fund also benefitted from its holdings in US-based Gilead Sciences, the world leader in HIV treatments. Its shares performed strongly after a solid Q3 result where management raised F24 EPS guidance by ~16% on lower R&D spend and higher-than-expected product sales (~2% upgrade), thanks to stronger HIV and COVID sales.

With earnings season now largely concluded, S&P500 consensus expectations are for double-digit earnings growth over the next twelve months. With the S&P500 trading on ~25x next year's estimated earnings, there is little room for error.

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