

Monthly Market Commentary

February hinted at a change in market leadership from a regional and sector perspective, with US growth equities underperforming.

Investors sold US stocks on the back of rising fiscal policy uncertainty alongside concerns over tariffs, spending, and immigration, as well as risks from a broader trade war. Economic data was also soft with a weak ISM Services reading, falling consumer sentiment and hotter-than-expected inflation weighing on sentiment.

Alongside already waning confidence in FY25 and FY26 earnings forecasts (the US has seen the worst regional earnings revision ratio) this reporting season has witnessed several US companies beginning to flag a weaker consumer backdrop relative to expectations. Supermarket group, Walmart cited “uncertainties related to consumer behaviour” as one factor behind a subdued FY26 guide with fellow retailer, Target also attributing a decline in February sales in part to “declining consumer confidence”.

Courtesy of unprecedented concentration risk, US markets were also disproportionately impacted by ongoing weakness within the mega-caps. Except for Meta, each of the Magnificent 7 fell during February, with Tesla amongst the worst performers on reports of ongoing sales weakness. More broadly, investors are beginning to worry about the cohort’s incremental returns in the face of eye-watering capital expenditure plans and apparently growing competition.

The deteriorating macro environment saw US small caps bear the brunt of investor selling with the S&P600 Small Cap Index down 5.8% in February. US large caps were also lower during the month with the NASDAQ and S&P500 falling 4% and 1.4%, respectively. In contrast, European equities continued to push higher through February, boosted by the prospects of an expansionary fiscal policy backdrop exemplified by loosening debt sustainability rules, and the signalling of increased EU defence spending. The potential for peace in Ukraine also helped sentiment. All major European bourses finished well in the green with performance led by the German DAX, up 3.8% for the month, spurred by the election of a new perceived pro-growth government in Germany. France’s CAC40 and the UK FTSE also delivered good performance, up 2% and 1.6%, respectively.

Asian markets were more mixed with Japan’s Nikkei225 down 6.1% due to escalating trade tensions, weakness in semi/tech stocks, and the prospects of more rate hikes. China’s Shanghai Composite finished up 2.2%, boosted by ongoing strength in its domestic AI plays.

From a global sector perspective Consumer Discretionary was the worst performer, dragged lower by Tesla and Amazon to

close down 6.1%, followed by Communications, down 5.1%, and Info Tech, down 1.9%. All other sectors finished up for the month, apart from Industrials which fell modestly, down 0.4%.

The AUD against the USD, and commodities were broadly flat in February with the Bloomberg Commodity Index up 0.4% despite a 3.8% slide in WTI oil prices. Given the ‘orderly’ nature of February’s rotation, there was not a volatility spike as the VIX rose 3.2 points to finish at 19.6, while yields on 10yr US Treasuries fell 33bps to close at 4.21%.

The Fund recently gained exposure to US-based, EOG Resources, one of North America’s largest independent oil & gas producers. We were attracted to EOG thanks to its multi-decade resource base, solid growth pipeline, very competitive cost position (less than \$15 cash costs per barrel), net cash balance sheet, and a good track record of capital deployment. With the stock trading on a ~7% Free Cash Yield (all of which is returned to shareholders) and ~2x EV/Invested Capital (i.e. close to 10-yr lows) we think EOG makes for a compelling investment opportunity.

Swiss-based food and beverages giant, Nestle was the biggest contributor to performance following a well-received FY24 result. Key highlights were strong Q4 organics and better-than-expected H2 margins translating to H2 EBIT approx. 4% above consensus. FY25 guidance and medium-term targets (+4% organics, +17% margins) were also re-affirmed at the result with the company also giving more colour on restructuring plans.

US-based fertilizer giant, CF Industries was the largest detractor. Despite delivering a reasonable FY24 result with no surprises, concerns over end-market farm demand, capex plans, and the prospects of a flattening global cost curve weighed on shares. However, the stock is cheap, trading at below 1x Gross Invested Capital, which is a good proxy for replacement cost. Hence, given our confidence in the long-term fundamentals of the sector, the strategic nature of CF’s assets, and a balance sheet capable of funding both network expansion and shareholder returns, we think the skew is to the upside and will continue to hold.