Monthly Market Commentary

The first quarter of 2025 was marked by the abrupt unwinding of the momentum trade that dominated markets throughout 2024. Big tech was sharply down. Rising global trade policy uncertainty triggered a risk-off response by investors. Stagflation worries emerged. Investors sought protection by rotating into gold, bonds and equities with defensive characteristics. European markets were the only bright spot in an otherwise dismal quarter for global equities.

The growing valuation gap between US and European equities reversed somewhat in the first quarter. Big Tech led the sell-off in America as the AI hype took a breather, not least because of the emergence of competition from China. Trade policy uncertainty sapped consumer and business confidence, dimming growth prospects. At the same time, sticky prices and higher tariffs drove inflation expectations up. Investors reached for protection, bidding up the price of gold to an all-time high while bond yields fell. Europe did well, partly from simple mean reversion but also on catalysts such as Germany signaling plans for significant fiscal expansion.

By region, the Stoxx600 was up 5.2% driven by optimism of European economic recovery. The German DAX rose the most, up 11.3%, as investors cheered the removal of the “debt brake”. The French CAC and the UK’s FTSE were also up 5.6% and 5.0%, respectively. The US, on the other hand, had a very poor start to the year driven by weakness in Mega Cap tech. The tech-heavy NASDAQ entered correction territory, down -10.4% while the broader-based (but still heavily concentrated and dominated by a narrow cohort of tech) S&P500 fell by -9.3%.

In Asia, the Nikkei also entered correction territory, falling by -10.7% as tariffs dimmed the prospects of exporters while tighter monetary conditions dampened overall growth prospects. China’s Shanghai composite had a muted quarter, down -0.5%, with DeepSeek fueled AI optimism offset by the imposition of higher US tariffs.

By sector, big tech was the biggest loser last quarter. The three tech-heavy sectors IT, consumer discretionary and communication services were down the most by -12.0%, -10.5% and -4.6%, respectively. On the positive side was a mix of defensive and cyclical sectors. Energy fared best, up 9.2% and supported by a surge in natural gas prices. Utilities and Staples also delivered strong performance, up 6.6% and 5.5%, as investors rotated out of tech and sought relative stability amidst rising geopolitical risks.

The US 10-year yield fell 36 basis points to 4.21% while corporate credit spreads widened by 40 basis points to 181 as worries about economic growth resurfaced. At the same time, commodity prices rallied 7.7%, hinting of rising inflationary pressures. The VIX reached 22.3, a few points above the long run average and up from 17.4 in December. Finally, the US dollar weakened by -3.9% relative to most major currencies, a somewhat unusual development in a risk-off environment.

The largest contributor to returns in the quarter was Roche, a Swiss pharmaceutical company that reported strong FY24 numbers, improved growth guidance and a number of successful pipeline drug trials. Another contributor to returns was Newmont, the largest global gold miner, on the back of a strong gold price. We continue to hold and add to both positions.

The largest detractor to performance in the quarter was Sodexo, a French catering and facilities manager on the back of a downgrade to their full year guidance. Despite this setback, the company continues to demonstrate solid growth potential and remains attractively valued. Another detractor to performance was Henkel, a German consumer goods company that also reported a disappointing growth outlook. Valuation support keeps us invested in both companies.

The Fund initiated six new positions during the quarter, capitalizing on higher market implied volatility and compelling valuations. The new investments include Essity, a Swedish consumer goods company with a dominant market position in adult incontinence and feminine care products, and Pfizer, a U.S. pharmaceutical giant trading at a discount to its fair value. In the technology and energy sectors, the fund added HP Inc., a prominent U.S. personal computer maker, and EOG Resources, a large oil and gas producer. Rounding out the new positions are Citigroup, a major U.S. bank and Robert Half, a global human resources consulting firm benefiting from strong demand for staffing solutions worldwide.

The Fund exited five positions during the quarter. Two utilities, WEC Energy Group and Redeia Corporación, were sold after shares reached very full valuations. Similarly, health care giant Gilead Sciences was exited following a strong run. In Japan, the fund divested from KDDI, a major telecommunications operator, and Sumitomo Trust Bank, both of which were trading at elevated valuations compared to their intrinsic value.

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