Monthly Market Commentary

The second quarter of 2025 was a quarter of extremes. A market rout in early April was followed by a powerful rally. Risk appetite returned with renewed optimism in tech and a rotation back into growth stocks. Defensive sectors underperformed. Although Europe appeared to lag the US, adjusting for significant US dollar weakness showed both regions delivered similar returns in constant currency.

Liberation Day tariff announcements drove a pronounced sell-off in early April. Volatility, measured by the VIX index, spiked to above 50 only for the third time this century. A war between Israel and Iran pushed oil prices sharply higher. However, a subsequent postponement of tariffs and the announcement of a ceasefire helped spur investor risk appetite. As a result, investors shrugged off the apparent risks these events posed to global growth and drove global equity indices to new all-time highs. Momentum and growth were the best performing factors.

By region, headline indices delivered strong gains in the US (S&P500 & NASDAQ up 10.6% and 17.7%, respectively) and Japan (Nikkei up 13.7%), while Europe lagged (Stoxx600 up only 1.4%); however, these differences were largely obscured by the pronounced weakness in the US dollar. When viewed in constant currency terms, index returns were much more uniform with all regions delivering similar high single to low double digit returns.

By sector, IT performed best, up 23%, powered by AI optimism and good results from mega-cap tech. Communication Services was also strong, up 18.7%, as digital infrastructure demand remained robust. Despite a war induced temporary spike in oil prices, energy was the weakest sector for the second quarter in a row, down -5.8% due to oversupply concerns. Healthcare was also weak, down -4.4% as managed care (United Health down -40%) and medical products providers reported a significant reversal in earnings momentum.

The VIX closed the quarter at 16.7, down significantly after spiking to 50 in early April during the Liberation Day turmoil. The USD was notably weak, with the DXY index down -7% as fears of unchecked fiscal spending in the US undermined confidence. The US 10-year yield remained virtually unchanged at 4.2%, despite volatility in risk assets and shifting inflation expectations. The oil price closed the quarter at $65.1, down from $71.5 in March.

The largest contributor to portfolio returns in the quarter was CF Industries on the back of robust fertilizer demand and pricing. Bayer, a German health and nutrition company, was another large contributor to fund returns as the market looked ahead of improved profitability. Newmont, a gold miner, was also very strong, benefitting from higher gold prices and operational improvements. We continue to hold all three companies as we see further upside to fair value.

The largest detractor to performance in the quarter was Bunzl, a UK distributor. A downgrade to the margin outlook given misexecution in its US business in H1 was the main driver. Another detractor to performance was Sanofi, a French pharmaceutical company. A disappointing pharma pipeline update and general weakness in global pharma drove the weakness. We continue to hold both companies on valuation grounds.

The fund initiated two new positions during the quarter. The new investments include Canadian Utilities, a Calgary-based provider of gas and electricity services, and Osaka Gas, a Japanese utility company. Both offer compelling valuations with stable earnings profiles.

The fund exited two positions during the quarter, Japanese security firm Secom and Japanese telco giant NTT, both on valuation grounds.

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