Monthly Market Commentary

July was a good month for global equities, particularly US large capitalisation stocks which set record highs. A generally good start to reporting season helped. Additionally, greater clarity on US tariffs, and the passing of the 'One Big Beautiful Bill Act' buoyed risk-on sentiment.

Investors appeared unconcerned that US consumers are facing the highest tariff regime since the 1930s at the same time as US government finances are set to become even more stretched. According to the Congressional Budget Office, the US federal deficit is expected to remain at an elevated level of around 6% of GDP over the next decade. Over the same period, the July enacted 'One Big Beautiful Bill' is estimated to add approximately USD$4.1 trillion to the deficit, potentially pushing it to over 7% of GDP.

As noted, US markets were strong in July with the NASDAQ and S&P500 up 3.7% and 2.17%, respectively. In contrast, small caps lagged with the S&P600 Small Cap Index up only 0.9%. In local currency terms, overseas bourses also did well with the UK FTSE up 4.2%, well ahead of France's CAC and Germany's DAX which rose 1.4% and 0.7%, respectively. In Asia, China's Shanghai Composite Index was up 3.7%, with Japan's Nikkei225 also up 1.4%. Given broad-based US optimism and the accompanying strength of the USD in July (DXY Index +3.1%), overseas bourse returns were lower in USD terms.

Information Technology was the standout performer on a sector basis, up 4.1%, with Energy and Utilities also delivering solid performance, up 2.4% and 2.2%, respectively. At the other end of the spectrum, Health Care fell 3.1% thanks to more weakness in US managed care stocks (further downgrades thanks to rising medical costs) and significant share price falls in some high profile GLP-1 makers. Most notably, Novo Nordisk's share price fell ~23% after downgrading FY25 EBIT growth to 10-16% (vs previous guidance of 16-24% growth) - a reminder that investors can still lose money even as profits grow.

The Australian dollar fell 2.4% against the USD in July. Commodities were modestly lower with the Bloomberg Commodity Index down 0.8%, despite a 6.4% rise in WTI oil prices. VIX remained largely unchanged during the month at around 16.7, with yields on US 10yr Treasuries rising 15bps to close at 4.37%.

Pharmaceutical giant, Johnson & Johnson was the biggest contributor to Fund performance in July, bucking the broader trend in Health Care weakness. Its shares rose strongly after a solid Q2 result where the company raised FY25 sales and EPS guidance and signalled positive momentum into 2026 with potential upside to long-term targets. With the stock trading on a ~15x P/E, it still offers compelling value, and we will continue holding.

Goldminer Newmont was also a meaningful contributor to the Fund's performance. Its shares rose after a strong Q2 result characterised by good cost management, conservative FY25 production guidance and more cash returns to shareholders via a new USD$3bn buyback. Having divested most non-core assets, Newmont now owns some of the most attractive gold mines globally (longest-life/lowest-cost). It also enjoys considerable balance sheet optionality (Net Debt/EBITDA ~0.1x) meaning it can still fund even more capital management initiatives. Hence, with the stock trading on a ~8% FCF yield (based on spot gold prices) there remains significant upside for shareholders from here.

Swedish health and hygiene group, Essity was the Fund's biggest detractor. The shares fell after it missed Q2 earnings estimates by ~5% thanks to weaker-than-expected volumes, FX headwinds and higher cost of goods sold. The company also flagged higher investments as it looks to re-ignite volume growth. The good news is that a solid balance sheet affords management time to execute an uptick in volumes, and with the stock trading near-trough sales multiples we think the skew is to the upside (~30% upside to where we see fair value).

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