Monthly Market Commentary

Global equity markets were mixed in February. Beneath the headline index moves, rotation intensified and dispersion across regions, sectors and individual stocks increased.

Notable in this dynamic was renewed weakness in US mega-cap stocks. This partly related to investors' growing unease around potential returns from AI capex, plus concerns over the apparent circularity of funding this capex. Hardest hit amongst this cohort was Amazon, which saw its shares drop 12% for the month after announcing FY capex guidance of $200bn, 33% above consensus. Concerns around AI disruption potential also saw investors sell perceived losers, most notably software stocks.

Against this backdrop, Information Technology and other mega-cap growth exposed sectors, such as Consumer Discretionary and Communication Services, fell by more than 3% during the month.

On the flip side, sectors dominated by real-asset owners, and exposure to higher commodity prices, displayed meaningful outperformance. Energy and Materials were up 8.5% and 10.5% respectively, along with Industrials which rose 6.8%. Defensive sectors did well, helped in part by falling yields, with Utilities and Staples up more than 8%. Financials were weak, down 1.5%, with concerns around lending to software companies and signs of emerging stress in the private credit market weighing on shares.

Dispersion was pronounced on a regional basis. In Asia, Japan's Nikkei225 continued pushing higher in February, up 10.4% in local currency terms, buoyed by PM Takaichi's pro-growth agenda and resounding election victory. Performance in China was more muted with the Shanghai Composite Index up 1.1% for the month.

European bourses were broadly stronger, benefitting from less exposure to software, some good economic updates and outsized weightings to materials and energy. The UK's FTSE led the way, up 6.7%, followed by the French CAC40 and German DAX, which finished up 5.6% and 3.0% respectively.

In contrast, US performance was more mixed with large caps down for the month. Market cap weighted indices underperformed their equal weighted equivalents and small caps. The NASDAQ and S&P500 fell 3.4% and 0.87%, respectively. The S&P500 Equal-Weighted Index rose 3.4%, delivering its fourth consecutive quarter of relative outperformance, while small caps were also stronger with the S&P600 Small Cap Index up 2.1% for the month.

The AUD gained 2.2% against the USD in February while the Bloomberg Commodity Index rose 0.8% with renewed precious metal strength offsetting weakness elsewhere. WTI Oil prices were also stronger, up 2.8% on rising geopolitical risks. The VIX rose 2.4 points to close at 19.86, while yields on 10yr US Treasuries fell 30bps to close at 3.94%, the largest monthly decline since February 2025. Oil and gas producer, EOG Resources was the biggest contributor to performance in February, with shares benefitting from higher oil prices. US-based insurer, Chubb was also a meaningful contributor with shares rising after a well-received Q4 result. Recruitment and consulting group, Robert Half was the biggest detractor with continued subdued employment outlook in the US weighing on shares.

In terms of new positions, the Fund gained exposure to Allstate, one of the largest auto insurers in the US. The company has demonstrated a long track record of profitable underwriting, translating to consistently high ROE and solid growth in book value per share, averaging some 9% per annum since 2016. With the shares trading at around 8x P/E, and with most capital returned to shareholders, we think Allstate is attractively priced.