# Monthly Market Commentary

## July saw mixed global equity market performance as heavy selling in growth and technology stocks saw value, cyclicals and European bourses meaningfully outperform.

Weakness within the technology landscape was largely confined to semiconductors and AI-supply chain beneficiaries, driven by profit-taking, hedge fund deleveraging and greater scrutiny over potential returns on unprecedented AI spending. Investors also contended with more energy price volatility and the prospects of higher rates as yields on US 30yr Treasuries rose to levels not seen since June 2007.

On a regional basis, Japan's Nikkei225 was the worst performer amongst developed world indices, falling 8.1% in local currencies, thanks to weakness in semiconductors and AI-related stocks. China's Shanghai Composite Index also struggled in July, down 6.4% thanks to technology weakness and energy market disruptions.

In US markets, a 21% decline in the broad-based semiconductor index, the SOX, disproportionally impacted the NASDAQ which fell 3.2% in July versus a broadly flat finish for the S&P500. Interestingly, while the Magnificent-7 complex was up strongly in July, +2.1% as a group, there were also signs of investors becoming increasingly discerning about AI returns and capex budgets even within this cohort. For example, Microsoft shares rose 15% on a well-received Q4 result buoyed by good headline AI monetization trends, measured capex commentary and FY27 guidance for positive FCF. In contrast, Meta shares dropped 8% after management 'upgraded' FY capex and opex at its Q2 results alongside underwhelming Q3 sales guidance. At the other end of the capitalisation spectrum, rate headwinds and profit-taking weighed on US small caps with the S&P600 Small Cap Index down 2% in July.

In contrast to US and Asian market weakness, European bourses delivered good performance in July, led by the UK FTSE which finished up 3.5% in local currencies thanks to outsized exposure to Financials and Energy. Germany's DAX and France's CAC also rose 2.5% and 1.3%, respectively, benefitting from having little exposure to AI-supply chain themes and supportive macro data. Given USD weakness towards the end of the month (DXY Index -1.3% in July), returns on a USD basis were even better for European bourses.

Information Technology was the biggest laggard from a sector perspective, down 4.2%, while higher oil prices helped Energy rise 12.6% for the month. Financials were also well supported, up 6.4%, thanks to higher rate backdrop, good bank results characterised by robust capital market activity and encouraging provisioning trends, and ongoing strength in insurers. Elsewhere, movements were more modest with Staples and Consumer Discretionary up approximately 2% while Utilities and Industrials fell less than 2%.

The AUD strengthened 1.4% against the USD alongside stronger commodity prices as the Bloomberg Commodity Index and WTI Oil rose 7.2% and 21.8%, respectively. The VIX fell 0.46 points to close at 15.99 while yields on 10yr US Treasuries rose 27bps to finish the month at 4.73%.

Against this backdrop the Fund delivered a return of 3.11% for the month.

The Fund gained exposure to US-based retirement and life insurer, Corebridge during the month. While the business needs to execute on its integration, we are attracted to Corebridge's large, sticky retirement annuity franchise along with a history of producing double-digit ROE and substantial capital generation. The company has been repurchasing ~$1bn of shares annually (~7% of market cap) which at current valuation of ~0.8x Book Value makes these particularly accretive.

Water-heater maker, A.O. Smith was the biggest detractor in July after it downgraded FY26 EPS guidance by ~2% on the back of intensifying cyclical headwinds (cost inflation) at the Q2 result. While there is still elevated risk to revised guidance, we continue to hold given a solid balance sheet, strong fundamentals (~20% margins, near 100% cash conversion), and supportive valuation. The stock is currently trading on a ~6% FCF yield, struck off what we believe to be close-to-trough earnings ahead of a meaningful replacement cycle and potential recovery in depressed new housing starts. We estimate fair value is ~$73/share with scope for the stock to potentially further benefit from any successful sale of its sub-scale China business.

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