Monthly commentary / 30.9.2024

Vontobel Fund – Global Equity

Summary

- The performance of the fund was positive in September 2024 and underperformed the MSCI ACWI ND.
- The Financials and Health Care sectors were positive contributors to relative performance over the month. The Information Technology and Consumer Staples sectors were the largest detractors from relative performance.
- On a country basis, Ireland and Hong Kong contributed to relative performance, while the China and Canada detracted from relative performance.
- Relative to the benchmark, the Fund's largest sector overweights for the month were Health Care and Consumer Staples while the largest sector underweights were Energy and Communication Services.
- The Fund's largest country overweights were the United Kingdom and France relative to the benchmark. The largest underweights were the United States and Japan at the end of month.

Market developments

China monetary stimulus and interest rate cuts in the US and Europe were the main drivers of global equity performance in September. After a slow start to September, US equities performed in line with the global benchmark thanks in large part to the Federal Reserve's first interest rate cut since 2020. Solid GDP data increased expectations of an economic soft landing, with US equities finishing the month at record levels. Across the Atlantic, European equities were weak as poor economic indicators, including deteriorating manufacturing and services PMIs, weighed on investor confidence. However, performance improved towards the end of the month partly due to interest rates cuts in the US and Europe, combined with expectations that China stimulus would have a positive impact on exporters.

Emerging markets performance was driven by China. After indications of measures to strengthen consumer spending and turn around weakening GDP, Chinese authorities unveiled wide-ranging monetary stimulus that included a cut in the reserve requirement ratio for banks, lower borrowing costs for existing homeowners and new buyers, and measures to boost the stock market. The package fuelled the largest weekly gain for Chinese shares since 2008. It was followed by another spike in share prices at the end of the month as investors bet on fiscal stimulus and the country entered its Golden Week national holiday.

Portfolio review

Purchases

N/A

Sales

N/A

Performance analysis

TOP3 Contributors:

Flutter Entertainment Plc

Flutter posted robust results for the second quarter, with revenue exceeding analyst expectations and the company raised its full-year guidance. It continues to reap benefits from its growth across international divisions, particularly in the US, due to the legalization of sports gambling in numerous states.

AIA Group Ltd.

AIA outperformed in the month of September, after the Chinese stimulus announcement. AIA, the largest life insurance company in Asia, is prudently managed with solvency and capitalization significantly above regulated requirements with profit recognition back-end loaded. Limited competition, light regulation and direct distribution keep profitability high for AIA. Given the low penetration of insurance and lack of competition from government social safety nets, the protection gap is large in Asia and growth rates are just starting to accelerate. We believe the growth opportunity is significant and has a long time before reaching market saturation. Additionally, AIA's overly provisioned balance sheet and the back-end loading of profit reporting would allow the company to grow earnings even with limited ANP growth.

Amazon Com Inc.

AMZN showed solid trends overall with recent Q2 results with revenue growth of +11% was in line with consensus and at the high end of guide while operating income came in 7% above consensus and 5% above high end of guide.

TOP3 Detractors:

Adobe Sys Inc.

The company reported results that were pretty good across the business and all above expectations. There was some disappointment around the outlook for next quarter though which had a few moving parts (early closing of deals, timing of the holiday events this year). Additionally, there's likely some anxiety around the lack of significant AI impacts with no major signs of a big uplift from AI quite yet. While they are seeing strong demand, they are yet to implement measures to significantly increase monetization as they look to usage and adoption as their primary goa for now.

Rb Global Inc.

Nothing fundamental to report since the good earnings results in the prior month where the company reported better than expected results and a client win in the IAA business that showcased the improvement of the operations since the acquisition. Given the counter-cyclical aspects of its equipment disposal business, there's likely some market positioning around macro-economic developments.

Tata Consultancy Svcs Ltd.

Client sentiment on Technology spend has not changed – it is still under pressure but more stable and is not getting worse. TCS thinks it is early to call if growth seen in the past quarter is sustainable due to clients continuing to re-evaluate ongoing projects, discretionary spends with priority for cost take-out. Customers are taking decisions at short notice, based on their perception of macro. Third party IDC is not expecting any material acceleration in global IT services spend in either of CY2025. The normalization of demand in CY2025 faces risks from: macro uncertainty, higher spending with hyperscalers, insourcing, and productivity from gen AI in software development and BPO.

Outlook

US interest rate policy has begun to normalize. In our view, equity investors should not be overly optimistic about aggressive rate cuts as those would likely be driven by weaker underlying economic conditions, specifically the unemployment rate.

While the US Presidential election has the potential to be a volatile event, markets are influenced by many variables beyond the control of any single politician or political party. Over the long term, however, policy can have a more substantial impact.

The longer-term theme in China is automation in the face of a shrinking workforce and the need to reduce manufacturing costs. We believe this shift will be a structural driver and we expect market share gains for local leading businesses. We continue to avoid the property sector where excess inventory will take a long time to clear, and banks which have rising non-performing loan risks and weaker net interest margins as interest rates reduce.

The evolving geopolitical landscape presents challenges for active investors. The upcoming US election could influence the trajectory of the Israel-Hamas conflict and the Russia-Ukraine war over the next 12 months. Managing geopolitical risk is similar to managing economic, business, or other fundamental risks. We seek to invest in companies with predictable earnings growth, focusing on their business operations and the attributes that make them quality investments, while maintaining reasonably conservative valuation assumptions.

Fund characteristics

Fund name	Vontobel Fund – Global Equity
ISIN	LU0278093595
Share class	I USD
Reference index	MSCI All Country World Index TR net
Inception date	19.6.2008

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	1.9%	2.3%
YTD	13.6%	18.7%
1 year	24.4%	31.8%
3 yrs p.a.	4.3%	8.1%
5 yrs p.a.	9.3%	12.2%
10 yrs p.a.	9.8%	9.4%
ITD p.a.	8.4%	7.3%

Time period	Fund	Ref. index
2023	19.9%	22.2%
2022	-21.2%	-18.4%
2021	13.5%	18.5%
2020	19.3%	16.3%
2019	27.6%	26.6%
2018	-5.0%	-9.4%
2017	28.9%	24.0%
2016	4.5%	7.9%
2015	4.5%	-2.4%
2014	6.8%	4.2%

Past performance is not a reliable indicator of current or future performance. Performance data does not consider any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

Investment risks

- A company's stock price may be adversely affected by changes in the company, its industry or economic environment and prices can change quickly. Equities typically involve higher risks than bonds and money market instruments.
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