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Macroeconomic Commentary[1]

Global equity markets faced a challenging third quarter due to ongoing inflation concerns and rising interest rates, witnessing a notable shift in sentiment compared to the positive trajectory seen in the first half of 2023. The MSCI World provided a negative return of -3.5% (in USD) over the quarter. In the US, the Dow Jones Industrial Average, S&P 500 and NASDAQ all delivered negative returns of -2.1%, -3.3% and -3.9% respectively. In Europe, the Euro STOXX 50 finished the quarter down -4.8%. In contrast, the FTSE 100 finished the month up 2.1%, mainly due to its large exposure to the energy sector, which benefitted from a sharp rise in oil prices. Central banks remained hawkish, with the Bank of England, Federal Reserve Bank and European Central Bank all increasing rates. Yields on UK, US and German 10-year bonds rose by 5, 73 and 45 basis points respectively. Among commodities, Brent Crude oil rose by 24.6%, which was driven by Saudi Arabia and Russia announcing extensions to voluntary oil output cuts to the end of the year. The pound fell by -4.0% against the US dollar, and by -0.9% against the euro.

Fund Commentary

During the third quarter of 2023, the Credo Global Equity Fund (CGEF) decreased by 5.4%, underperforming the MSCI World Index by 1.9% in USD terms[2].

The quarter was another difficult quarter for global equity fund managers. Markets remained heavily focused on key economic data to ascertain the direction of interest rate travel. The main themes continued to focus on inflation, interest rates, recession, and geo-politics. The market had been eagerly awaiting confirmation that inflation is under-control and that central banks can pivot start slowing the rate of interest rate hikes, and potentially start cutting interest rates. To this point, there seems to be a strong belief that the US economy has remained resilient, will likely have a "soft landing", and company earnings will remain intact. However, towards the latter part of Q3 we saw a rapid rise in the price of oil, which has again put pressure on the inflation debate, and simultaneously, we have seen the US 10-year Treasury note accelerate higher, compounding pressure on borrowing costs. These factors have added to the negative returns in most equity markets over the quarter.

The main positive contributors to the CGEF included strong performance from the more defensive basket of positions held, including insurance stocks like Progressive, Admiral Group, and Chubb. The energy exposure also performed well through holdings in Shell and BP. We also saw good performance from healthcare providers, Cigna and Humana. The detractors from the portfolio continued to be the consumer facing stocks like Dollar General, Flutter Entertainment, Entain plc, and Kering. RTX also announced a company specific issue relating to inferior powder metal that has been used in its parts and which was causing imperfections. The company has asked for a recall of some of its engines, and this recall is said to cost the company around $3.5 billion. In the meantime, the stock has lost nearly $30 billion in value, as investors worry about the containment of this issue.

We added a new position to the portfolio in Anheuser-Busch InBev.

(1) Source: Bloomberg.
(2) Performance of the Credo Global Equity Fund Class A Retail Shares over the period 30/06/2023 to 30/09/2023.

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Looking Forward

The third quarter of 2023 has been another frustrating period for investors. There have been very few areas in the market where investors have been able to generate positive returns. Even the mega-capitalisation "magnificent seven" stocks appear to have run out of steam and have given back some of their stellar performances from the beginning of the year. We continue to hold quality companies at attractive valuations. At some point these positions will be rewarded.

As always, we remain patient and true to our investment philosophy.

Jarrod Cahn, Co-Portfolio Manager