

## Macroeconomic Commentary<sup>1</sup>

Following a strong start to the year, global equity markets provided mixed returns throughout the second quarter. The MSCI World Index, S&P 500, NASDAQ, and FTSE 100 all experienced positive returns in their local currencies of 2.6%, 4.3%, 8.5% and 3.7% respectively, mainly driven by US technology companies continuing to outperform other areas of the market posting strong earnings reports. However, European financial markets responded negatively to the announcement of a snap election in France by President Emmanuel Macron, resulting in the Euro STOXX 50 posting a negative return of -1.6% over the quarter. In fixed income markets, yields on US, UK, and German 10-year bonds rose by 20, 24, and 20 basis points respectively, due to changing investor expectations on the likely timing of future interest rate cuts. The Federal Reserve Bank reinforced this by projecting just one rate cut in 2024 but adopted a hawkish tone at its June conference. The European Central Bank cut interest rates and indicated no rush for further cuts. The Bank of England did not cut rates this quarter but hinted at a possible move in August. In commodities, copper rose 10.6% over the quarter and hit all-time highs in May. The pound was up 0.2% and 0.9% against the US dollar and euro respectively.

## Fund Commentary

During the second quarter of 2024, the Credo Global Equity Fund (CGEF) decreased by 2.60%, underperforming the MSCI World Index by 5.12% in GBP terms<sup>2</sup>.

The quarter was a mixed one for equity fund managers. It seems that several political events, particularly in Europe, slammed the brakes on risk appetite in the European markets (including the UK). The two main events were the snap elections in France, that saw the rise of the Far-Right party in France enjoy a significant support and place the French government structure and economy in disarray. Likewise, in the UK the Prime Minister called for an early election, set for the 4<sup>th</sup> of July, almost certainly putting an end to the Tory party leadership of the country. However, the main theme of the quarter continued to be the continued strength of the “Magnificent Seven”. These mega capitalisation growth stocks continued to significantly outperform the indices, led by Nvidia, which for a few days became the largest company in the world. Growth significantly outperformed Value thereby continuing the strong upward trend and outperformance of Growth over Value as a strategy. The MSCI Growth Index was up 6.35% during the quarter, outperforming the MSCI Value Index by 7.55% in USD terms.

The main positive contributors to the CGEF included robust performance from higher rated stocks like Alphabet and Booking Holdings, as well as the oil basket of stocks (Shell and BP), which benefitted from a higher oil price. IG Group also performed well after producing another solid set of results. The detractors from the portfolio included Ryanair Holdings, Diageo, Flutter Entertainment, Cigna Group and Entain.

We added new positions in Barry Callebaut, Charles Schwab, MTU Aero Engines AG, Teledyne Technologies, Hershey Co, TotalEnergies SE, Treasury Wine Estates, and Warner Music Group.

We sold our positions in American Tower Corp, Bath and Body Works, BP, Crown Castle, Dollar General, PayPal Holdings, and Vail Resorts.

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(1) Source: Bloomberg.

(2) Performance of the Credo Global Equity Fund Class A Retail Shares over the period 29/03/2024 to 28/06/2024.

## Looking Forward

As discussed in the prior commentary, the dislocation between returns in Growth versus Value seems to have gone back to uncomfortable levels. We have seen periods like this before, like in the run up to the technology meltdown of 2000 and during the Covid pandemic. Much of the return performance has come in multiple re-ratings and much less in earnings growth. This dislocation can continue, and in fact get wider during periods of monetary easing, but at some stage the gap needs to close. As such, we remain cautious on higher valued companies, and are defensively positioned. We continue to own high quality businesses, at good valuations.

*Jarrold Cahn, Co-Portfolio Manager*

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