

Macroeconomic Commentary¹

The beginning of the final quarter of 2022 witnessed a turnaround in global equity markets, spurred on by the resilience of labour markets in the face of a pessimistic global economic outlook. Although this positive shift remained for much of the quarter, volatility stayed high and December saw a decline in the quarter's progress, in terms of both global equity and bond markets. The quarter concluded with the MSCI World Index (GBP) gaining 1.0%, alongside the S&P 500, Euro STOXX 50 and FTSE 100 which all finished up by 7.5%, 14.9% and 8.7%, respectively in their local currencies. The quarter concluded a challenging year for investors, as central banks continued to raise interest rates over and above expectations, causing bonds and equities to sell off as the two asset classes became more correlated. In fixed income markets, yields on the US and German 10-year bonds increased by 5 and 46 basis points, respectively, whereas the yield on the UK 10-year bond fell by 42 basis points, following increased optimism after the UK's 'mini-budget' U-turn. The pound gained 8.2% against the US dollar and lost 0.8% against the euro.

Fund Commentary

During the fourth quarter of 2022, the Credo Global Equity Fund (CGEF) increased by 15.1%, outperforming the MSCI World Index by 5.3% in USD terms².

Q4 2022 was another volatile quarter, very much following the same themes of the third quarter of the year where markets fretted about rising interest rates, inflation, and the slow re-opening of the Chinese economy. However, data from the US is beginning to show that inflation has peaked, and is on the way down, spurring investors to take more risk on the hope that the Federal Reserve Bank is near the end of the tightening cycle. This data coincided with positive news from China, as the Premier reversed its zero Covid policy and began re-opening the country again spurring investors that this would give a boost to international trade and avert a deep worldwide recession.

The main positive contributors to the CGEF included strong performance from our UK listed basket of insurance companies. Prudential plc benefitted from the Chinese re-opening, and better sentiment to that region. Hiscox Ltd and Admiral Group plc both performed well, benefiting from a hardening insurance market, and several broker upgrades. The other strong UK listed performer was Flutter Entertainment plc, which benefitted from a strong FIFA World Cup, and continued strength in its US division. The detractors from the portfolio included some of the higher beta stocks, including PayPal, Meta Platforms, Global Payments, and The Walt Disney Company. The most notable change to the portfolio was the switch in consumer discretionary exposure, with the sale of The TJX Companies, Ross Stores and Burberry, and the addition of other names including Canada Goose Holdings, Kering, Moncler, and Bath & Body Works.

(1) Source: Bloomberg.

(2) Performance of the Credo Global Equity Fund Class A Retail Shares over the period 30/09/2022 to 30/12/2022.

Looking Forward

We anticipate that 2023 will be a difficult year for equity investors. Although interest rates are peaking in the US, they are still rising in other parts of the world. Inflation is sticky and may not moderate as quickly as some are hoping. Essentially, the cost of capital will remain high, and hence reduce the risk appetite that we saw drive up speculative behaviour and valuations, particularly of Growth stocks. We believe investors will focus more attention on the quality of businesses, with much emphasis on profitability, balance sheet strength and cash-flow. This should favour Value as an investment strategy.

The CGEF remains defensively positioned. We continue to have a significant weighting towards the Diversified Financials, Insurance and Healthcare sectors. These are sectors that we believe should continue to perform well in this challenging environment.

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

Jarrod Cahn, Co-Portfolio Manager

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