New Capital Strategic Portfolio Fund

Monthly Commentary | As of 31 October 2024

Executive summary

Key events in market
Both bonds and equities experienced losses in October, as the market tussled with the uncertainty created by the US election, geopolitical tensions and strong economic data. The main concern for investors was the back-up in US Treasury yields, despite the Fed cutting rates at the end of the last month. Economic data continued to surprise on the upside, which reduced fears of a sharper downturn and led investors to dial back the likelihood of rate cuts.

Key performance & positioning updates
During October the Fund returned -2.03%, underperforming the benchmark by -2.08%. During this period, we saw the S&P 500 down -0.92% and the MSCI All Country World Index down -2.24%. In Europe, the DJ Eurostoxx delivered -3.30% for the month, whilst in Asia the Hang Seng produced a return of -3.84%, all in local currency terms.

House view

The MSCI world All Countries index corrected in October, registering a total return of -2.2% in the month. However, the performance since the beginning of the year remains a solid 16.4%. The performance of the MSCI ACWI was burdened by the correction in China and Asian markets as the surge seen in September was not supported by credible announcements of fiscal expansion. The month saw also increased volatility: the Vix index of implied volatility in SP500 options rose to above 22 from about 16 at the beginning of the month, levels that unsurprisingly represented a headwind to global equities.

The weakness of stock prices mirrored a sell off in fixed income markets, with the US Treasury 10-year yield adding almost 0.50% to rise to the highest since early July. Notably, the yield increase reflected a higher risk premium on top of upwardly revised expectations about future monetary policy. Furthermore, inflation expectations increased in the period, although the price of commodities, including oil, industrial metals and agricultural goods, fell. Finally, the US dollar index appreciated by more than 3%, this happened despite the price of gold of surging more than 4% for the month.

As much as these developments seem contradictory, they closely align with the increased belief amongst investors that the Republican party candidate Donald Trump has a better chance of winning the US Presidential elections than vice President Kamala Harris, the Democratic party candidate. Increased investors' focus on the US elections overshadowed the European Central Bank decision to cut rates again in October and the UK budget by the new Labour government under Keir Starmer.

Fund performance and positioning

For the month of October, the Fund produced a return of -2.03%, bringing our year-to-date return to 5.74%, whilst our reference benchmark had a return of 8.96%. During which time the MSCI All Country World Index in USD, rose by 16%, on a year-to-date basis.

Asset Allocation (Alpha -0.12%)
Given the weaker market environment, the portfolio's overweight Equity and underweight Fixed Income allocations were a minor drag on relative performance. A small positive contribution was delivered by the portfolio's allocation to Alternatives and zero exposure to Commodities. However, this was offset by our underweight to Hedge Funds, which was a strong relative performer in a month where both equities and bonds fell in value.

Security Selection (Alpha 0.18%)
The Fund benefited from the Equity allocation's security selection. A number of positive quarterly earnings results from our holdings supported returns during an ultimately negative month for equity markets. This was driven by our US equity allocation, which finished October with positive returns. Elsewhere, security selection had minimal impact on the month's relative return, apart from Cash. Weakness in the JPY, created by political instability, reduced the value of the portfolio's JPY option, which is classified under our Cash allocation.

The start of October saw a raft of positive economic data releases, including a robust US ISM services data point and a stronger than expected US jobs report. This helped the global economic narrative, but led investors to recalculate the likelihood of rapid rate cuts from the Fed. That trend then got further support from the latest inflation data showing US core CPI up to a 6-month high. This meant a significant number of cuts were priced out, and by the end of the month, investors were expecting nearly three fewer cuts by December 2025.

These dynamics put upward pressure on yields, with US Treasuries seeing their biggest monthly decline in total return terms since September 2022. The weakness coincided with prediction markets placing a growing probability on a Republican sweep scenario, which is seen as raising the likelihood of fiscal stimulus relative to divided government and tariff impacts.

Another big theme in October was geopolitics, as tensions in the Middle East remained high. Israel and Iran continued to employ measured responses to each other's attacks. This backdrop meant that several perceived safe havens put in a strong performance in October. For instance, gold prices advanced for a fourth consecutive month and closed at an all-time high on October 30. The dollar index also rose in its strongest monthly performance since April 2022.

Overall, our asset allocation continued to favour equity over fixed income and during the month we did trim several of our stocks as we felt some profit taking and risk management was warranted. We kept our exposure to the US Treasury curve and high-quality bond exposure. On real estate, we are starting to build out our exposure, recent additions around the US home builders and infrastructure as key beneficiaries of lower rates.

Asset class	Alpha from asset allocation	Alpha from security selection
Bonds	-0.01	0.04
Equities	-0.02	0.56
Property	-0.03	-0.04
Commodities	0.02	0.00
Hedge Funds	-0.06	0.01
Alternatives	0.01	0.01
Cash	-0.02	-0.39
Total	-0.12	0.18

Source: Bloomberg data as at 31 October 2024. Data accumulated from 30 September 2024 to 31 October 2024. Attribution figures are gross of fees and shown for illustrative purposes only. Deduction of fees will reduce returns. **Past performance is not a guide to the future.**

Bond Allocation	%/Ratings/No.
Weighted Average Yield to Maturity	5.56%
Weighted Average Yield-To-Worst	5.34%
Weighted Average Duration (Net)	5.03
Weighted Average Credit Rating	A-

Source: EFGAM calculations as at 31 October 2024.

The dollar index rose in its strongest monthly performance since April 2022.

New Capital Strategic Portfolio Fund

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	New Capital Strategic Portfolio Fund	Benchmark	Reference Benchmark
1 Month	-2.03%	+0.84%	-2.08%
3 Months	+2.15%	+2.59%	+1.97%
6 Months	+5.69%	+5.26%	+8.30%
YTD	+5.74%	+8.96%	+9.66%
1 Year	+25.37%	+10.80%	+22.23%
3 Years	-10.11%	+29.36%	+8.71%
5 Years	+36.25%	+44.10%	+37.14%
Since Inception Annualised	+5.86%	+6.92%	+6.08%
Since Inception (29/12/2014)	+75.20%	+93.17%	+78.67%

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Outlook

Looking into the remaining portion of 2024, we are optimistic that our long run equity holdings are companies which exhibit earnings compounding quality with an expectation that their earnings will exceed the market. On the fixed Income side, we believe rates have peaked for most developed economies, which should see yields compress across the curve, leading to capital appreciation for our high-quality fixed income book, alongside favourable yields/coupons, which we have locked into. That said, we appreciate the magnitude of rate reductions will remain a contentious issue.

Driving our outlook is the view that economic growth will slow, but not to the extent to cause a full-blown recession. With inflation measures easing and labour dynamics weaker than expected, our base case remains that we will see further monetary easing. This, with supportive fiscal measures and an upcoming US election, should see authorities provide a more supportive tone to their respective economies.

On the geopolitical side of the equation, it's harder to foster a view. To date, these periods of volatility have proven to be a good opportunity to add to high conviction themes. We are now entering the final quarter of the year and from a historic perspective markets tend to do well, despite some seasonal impact during October. However, for now we remain engaged.

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All sources: EFG Asset Management (UK) Limited ("EFGAM"), Factset, Bloomberg, Morningstar as at end of the month. Any other sources as applicable.

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