New Capital US Value Fund

Quarterly Commentary | As of 30 September 2024

Market overview

The third quarter of 2024 experienced a sustained rally in global equity markets, despite occasional volatility and economic uncertainties. The MSCI World Index and the MSCI All Countries Index showed consistent gains, with 1 year returns of 18.8% by the end of September.

The quarter opened with a change in investor sentiment in July. Soft US consumer price index inflation numbers led to the anticipation of a Fed funds rate cut, prompting a move from mega-cap tech stocks to US small-cap stocks. Reflecting a weakening in the US economy, bond markets rallied, with yields on US Treasury bonds falling to the lowest in more than a year.

August witnessed a continuation of the equity rally, but volatility increased due to fears of a looming US recession and changes in Japanese monetary policy. These concerns, as well as geopolitical tensions and the prospect of monetary easing contributed to the gold price rally.

September brought new all-time highs for global stock markets. The Federal Reserve started easing interest rates, shifting its focus from inflation control to supporting the labour market and economic growth. Chinese authorities announced measures to stimulate their economy, and declining oil prices provided further market support. Throughout the quarter, all major developed market currencies and the yuan renminbi recovered against the US dollar.

The outlook at the end of the quarter is supported by the expectation of a prolonged period of monetary policy easing and moderate bond yields.

The US equity market saw a sharp rotation in performance in the third quarter, with the S&P 500 up 5.9% and the Russell 1000 Value up 9.4%. Prior to the third quarter, Value stocks had been substantially lagging their Growth peers in 2024 and most of 2023. However, the Russell 1000 Value outperformed the Russell 1000 Growth index by 6.2% in the quarter, the widest margin of any quarter since the fourth quarter of 2022. The historically high level of concentration in US equity indices began to unwind, as the S&P 500 Equal Weight index was up 9.6%, outperforming the traditional market capitalization weighted index by 3.7%.

A confluence of factors led to the rotation, including a continued decline in inflation readings, interest rate cuts by the Federal Reserve, and a deteriorating but still healthy US labour market. The US consumer price index reading in August declined to 2.5% on an annual basis, down from 2.9% in July and the lowest level since February 2021. The Fed's preferred inflation gauge, the core personal consumption expenditures index, was up 2.7% in August, trending toward the Fed's long-term target of 2%. The US unemployment rate was 4.2% in August, up from 3.8% a year ago. The subdued inflation readings and deteriorating employment picture led the Federal Reserve to cut the benchmark interest rate by 0.5% at its September meeting, the first cut since the onset of the Covid pandemic in March 2020. In addition, the Fed forecasted cutting rates by another half point by the end of the year. Treasury yields declined throughout the quarter, with the yield on the 10-year declining from 4.4% to 3.8% by quarter-end.

A significant rotation in sector performance occurred in the quarter. Utilities (+19.4%) was the best performing sector, extending a strong rally that began in October of 2023. However, real estate (+17.2%) was the second best performer after being the worst performing sector in the first half of the year. The decline in interest rates provided a modicum of relief for borrowers and potential borrowers, with the average 30-year mortgage declining from 6.9% at the start of the quarter to 6.1%. Energy was the worst performing sector, down 2.3%. The West Texas Intermediate oil benchmark declined 16% as global economic concerns grew throughout the quarter and OPEC+ contemplated an end to its production cuts first enacted in late 2022. The two best-performing sectors in the first half of the year were among the worst performers in the third quarter. Information technology was the second worst performer, up only 1.6%, while communications services was up 1.7%.

Fund performance and positioning

The portfolio underperformed the benchmark (Russell 1000 Value) by 81 bps in September. Consumer discretionary and utilities were once again the top performing sectors for CTR (contribution to total return) for the month. At a high level, the largest contributors to total return for the month were from Vistra on the announced opening of the nuclear reactor on Three

Mile Island, Oracle on the back of earnings and progress on artificial intelligence investment, Cracker Barrel and newly purchased Pulte Group. The positions with the largest negative CTR were from the energy and industrials.

	New Capital US Value Fund	Russell 1000 Value Net Index	Difference
1 Month	+2.64%	+1.34%	+1.30%
3 Months	+8.45%	+9.26%	-0.81%
6 Months	+3.97%	+6.72%	-2.75%
YTD	+13.52%	+16.12%	-2.60%
1 Year	+23.57%	+26.91%	-3.34%
3 Years	+22.69%	+27.04%	-4.35%
Since Inception Annualised	+9.66%	+11.15%	-1.49%
Since Inception (03/12/2020)	+42.31%	+49.85%	-7.54%

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MARKETING COMMUNICATION

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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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