New Capital
Euro Value Credit 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.

Fund performance and positioning

The fund marginally underperformed its benchmark by 0.04% in Q3 2024. In absolute terms the fund returned 3.24% in the quarter, primarily driven by interest rates (240bps) while carry (84bps) and the impact of spread tightening (22bps) made positive but smaller contributions.

Yield curve positioning was the largest driver of performance, as the portfolio maintained an overweight duration position particularly to intermediate maturities. European government bond yields moved lower during the quarter driven by the European Central Bank (ECB) cutting rates by a further 25bps in September but also by markets pricing in a faster pace of easing going forward, in the context of weaker growth prospects and receding inflation. The term structure continued to steepen in the third quarter, with short term rates declining relatively more than the long end, further benefiting portfolio performance due to its underweight to rates beyond 10 years.

Credit spreads closed the quarter tighter by 3bps, having moved wider in early August on US growth concerns and broader market volatility, before retracing and then rallying firmly post the Fed rate cut. Financial spreads tightened marginally more than non-financials, proving beneficial for the fund given its significant overweight to financials.

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	New Capital Euro Value Credit Fund	BofA Merrill Lynch European Large Cap Corporate Bond Index	Difference
1 Month	+1.15%	+1.23%	-0.08%
3 Months	+3.24%	+3.28%	-0.04%
6 Months	+3.26%	+3.40%	-0.14%
YTD	+4.01%	+3.79%	+0.22%
1 Year	+11.03%	+9.59%	+1.44%
3 Years	-7.24%	-4.25%	-2.99%
5 Years	-5.29%	-2.53%	-2.76%
Since Inception Annualised	-0.25%	+0.50%	-0.75%
Since Inception (29/09/2017)	-1.75%	+3.54%	-5.29%

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Outlook

The outlook for European fixed income remains relatively constructive, despite many aspects of the market appearing fairly valued. Credit spreads are historically tight and while company fundamentals remain sound, the recent weakness among autos names demonstrates the downside risk for cyclical sectors of the market. Continued disinflation provides some bandwidth for the ECB to respond to a more widespread slowing of the economy.

Risks also remain in the realm of geopolitics, including the risk of escalation in the Middle East and the outcome of the US Presidential election in November, both of which may have unpredictable effects on the European economy. Closer to home, investor concerns remain over French fiscal developments and increasing budget deficits.

Overall we see the risk return profile leaning favourably towards European investment grade credit, providing a balance between carry, sensitivity to interest rates, and resilience to an economic slowdown. Meanwhile selective exposure to high yield and emerging market credit at short durations could provide attractive yield enhancement.

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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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Italy: from the Italian paying agent, All funds Bank S.A.U., Milan Branch, Via Santa Margherita, 7 – 20121, Milan, Italy

Germany: from the German Facility Agent, FE fundinfo (Luxembourg) S.a.r.l. 6 Boulevard des Lumières, Belvaux 4369 Luxembourg

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agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;
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