New Capital
Emerging Markets Future Leaders Fund

Monthly Commentary | As of 31 October 2024

Executive summary

Key events in market
MSCI World fell only 0.7%, mainly due to US equities where the Nasdaq and S&P rose 1.7% and 0.7% respectively. Broad Emerging Markets fell 3.7%.

Key performance & positioning updates
The Fund enjoyed a solid month in relative terms, falling 2.3%, outperforming its benchmark by 1.77% (-4.11%).

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

October saw the Fund weather some unpleasant down drafts, as markets priced in a Trump election victory. Broadly this has been seen as Emerging Market negative – something we discuss more below. In attribution terms, Financials, Energy and Information Technology were the biggest positive contributors to the month; only Industrials detracted, with Communication Services and Health Care the other smallest contributors.

Within Financials, Abu Dhabi Commercial Bank was the biggest contributor. This has been a relative laggard recently, after we switched into it from Emirates NBD. Abu Dhabi Commercial Bank is a solid franchise which we believe has made huge strides in its digital offering (scooping up a large share of retail deposits), whilst delivering solid cost of risk numbers (lower provisions and high non-interest income growth) given its reputation as a conservative lender. What has been lacking in the past is growth, which is starting to come through in the form of local lending and forays into the Saudi quasi-sovereign market. Their recent results indicated a clear path to a return on tangible book above 14% for 2025 and 2026, which historically has meant solid return expansion in the face of falling rates.

ADNOC Drilling led the Energy sector attribution. Management delivered a solid set of third quarter results and updated their full year guidance for revenues, EBITDA and net profit. This was a function of better-than-expected performance driven by the ramp up of new on-shore rigs and unconventional drilling growth. We see a healthy combination of visible growth – rig fleet additions and volume upside in their local market – and less visible unconventional, Oil Field Services and international (Kuwait/Oman) growth. We also continue to like their capital allocation strategy and await further positive deal news from their JV – where there are several accretive opportunities.

Information technology was helped by Unimicron, Quanta and Taiwan Semiconductor Manufacturing. All three play in different segments of the semiconductor supply chain with the former two particularly exposed to artificial intelligence demand (the former as a Copper Clad Laminate (CCL) manufacturer, the latter as a server manufacturer). These two industries used to be characterised by high competition, low barriers to entry and high cyclicality. Whilst it is too early to say definitively, there is potentially a change occurring in the structure of these sub-industries. We have seen how outsourced fabrication and memory have gone from low value add fragmented to high value add consolidated – with TSMC and Hynix the winners. Today, the increased performance requirements of AI for CCL (conductivity, form factor etc.) and box manufacturing is perhaps entering a similar phase: dominant customers (like Nvidia) award contracts to suppliers who can do more complex work (e.g. switchable sockets for server boxes at Quanta). This is different to the past when META would bulk order Web 2.0 server boxes from Quanta or either of their competitors Pegatron, Wistron and Inventec – and price would be a key determinant. We are optimistic that artificial intelligence requirements could hasten some changes in the competitive dynamics of industries, transforming them from once commoditised suppliers to higher value add, better return components of the supply chain.

Industrials were dragged down by Mytilineos. This has been a poor performing position this year – hampered by liquidity and technical overhangs – but third quarter results were solid (exceeding estimates, again).

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	New Capital Emerging Markets Future Leaders Fund	Solactive Emerging Markets ex China Custom Net Return USD Index	Difference
1 Month	-2.34%	-4.11%	+1.77%
3 Months	+0.69%	-1.10%	+1.79%
6 Months	+5.26%	+1.06%	+4.20%
YTD	+4.75%	+0.44%	+4.31%
1 Year	+22.43%	+17.23%	+5.20%
Since Inception Annualised	+5.05%	+2.12%	+2.93%
Since Inception (28/03/2022)	+13.64%	+5.60%	+8.04%

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Outlook

From a macro perspective, the US election has usurped the Federal Reserve as the main talking point of the recent month. Markets have partially priced a Trump victory, which partially reversed after an Iowa poll showed more support for Harris.

Price action indicates that Trump is perceived as negative for broad Emerging Markets. For Mexico that means a tougher renegotiation of the USMCA (United States-Mexico-Canada Agreement); in Brazil, where fiscal spending has driven domestic bond yields higher, real weakness against a stronger U.S. dollar. In Central and Eastern Europe, tariffs on their main trading partner would create fresh downward pressure on growth – seen visibly in Greece and Poland. In Asia, mean reversion in China as stimulus has failed to excite (yet) and pressure on American companies to divest or disentangle supply chains. Conversely, we have only seen strength in Taiwan, as Republicans are (perhaps ironically) viewed as the guardians of the semiconductor industry. So it is fair, we think, to expect a rally in USD assets and local stock markets on a Trump win; as emerging markets probably take a leg down. Harris – on the others side – is viewed as less protectionist and a more status quo candidate. Whoever has been running the United States for the last few years is likely to continue to run the show. This means a gentler approach to trade partners (except China), a more forgiving USMCA and a collective sigh of relief across non-USD markets – of which subordinate currencies will be the biggest beneficiaries. In our view Emerging market equities should rally. That is the short term.

When we look at the long term, however, both administrations look quite similar. If we take their core stated aims (more US growth) we expect more deficit spending, more rate cuts (25bps in November and then again in December) and then potentially a weaker USD. In this world, again, Emerging Markets should do well. Latin America would benefit from investment as Trump cannot re-shore everything. Indeed, many Mexican businessmen we have spoken to welcome a tough Trump presidency to help resolve some of their social, judicial and infrastructure issues. Taiwan and India from AI growth and domestic flows; EEMEA from underpinned oil prices and a potential peace dividend in Ukraine. In each case, however, China looks relatively unattractive.

Naval gazing aside: next week's election has cast a shadow on other events: Chinese policy announcements (committees sitting 4-8 November); voting for Mexico's supreme court reform (which could lead to a constitutional crisis); a Federal Reserve rate decision; and a host of central bank rate announcements.

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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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