

New Capital Wealthy Nations Bond Fund



Monthly Commentary | As of 30 September 2024

Executive summary

Key events in market

The Federal Reserve started its easing cycle with a bigger cut than many were expecting. China stimulus surprised on the upside supporting Asian markets and commodities. Fixed Income returns were strong as spreads tightened and rates rallied. Emerging market sovereigns returned 1.79%, with corporates nearby at 1.23% vs. developed markets which returned 1.65%.

Key performance & positioning updates

The Fund showed a strong return on an absolute basis, however showing a small underperformance against its benchmark (ICE BofAML Eurodollar Index) but outperforming JPM EMBI Investment Grade Global Index. During the month, all sources of return contributed to performance.

House view

After another brief correction at the start of the month, global stock markets hit new all-time highs at the end of September. The MSCI All Countries Index rose 2.4% for the month, bringing its year-to-date gain to 19.1%. Government bond yields remained at their lowest levels in 15 months on the prospect of looser monetary policy.

Commodity prices, except for oil, rose on a mix of elevated geopolitical tensions – gold – and the announcement of measures to support the economy in China – industrial metals. Finally, the currency market saw the yen, sterling and yuan renminbi lead the recovery of major exchange rates against the US dollar.

In September, several important economic policy steps were taken. First, the Federal Reserve began easing interest rates with a 0.50% cut, higher than market expectations, signalling a shift in focus from fighting inflation to supporting the labour market and economic growth. In addition, Chinese authorities announced a broad package of fiscal and monetary measures aimed at supporting the real estate market and domestic demand.

Another factor that supported markets is the decline in oil prices. Despite the worsening crises in the Middle East and Ukraine, crude oil supply remains more than sufficient to meet demand, which remains moderate, also by virtue of the growing availability of energy from renewable sources. The prospect of lower inflation, in the absence of new shocks, fuels the hope of a prolonged period of interest rate cuts and moderate bond yields.

Fund performance and positioning

The Fund showed a strong return on an absolute basis, however showing a small underperformance against its benchmark (ICE BofAML Eurodollar Index) but outperforming JPM EMBI Investment Grade Global Index. During the month, all sources of return contributed to performance. The rally in US Treasuries that started at the end of April continued during September, fuelled by the very much expected rate cut by the Fed. The team had a conviction of a 50bp rate cut despite most of market forecasting a 25bp cut. Lower inflation data and softer labour market made the Fed take a more drastic stand. With inflation cooling and activity relatively muted, other western central banks also deemed it appropriate to cut rates. The European Central Bank delivered its second rate cut in September taking interest rates to 3.5%. During the month, falling government yields were accompanied by tighter credit spreads, as underlying growth outlook remains healthy, despite recent weaker manufacturing data, and low default rates. The Fund's overweight duration positioning created outperformance in September, outweighing the steepening in the yield curve. The shift in the rate cycle has helped government bonds to perform strongly. Credit has also done well due to still healthy economic activity and overall good credit balance sheets. During the month, higher beta issuers outperformed, with Pemex leading the table. The Fund has maintained its exposure to the company given attractive valuations and the high expectations of government support, which continues to be strong after elections of new President. Subordinated debt in developed market financials also continues to perform well, however during the month the Fund has been taking profits and trimming down some positions. On the negative side, high quality long dated emerging market bonds like PIF 2053, Chile 2042, Qatar Petroleum 2051 lagged the market. From a sector perspective, auto manufacturers underperformed after several companies issued profits warnings and potential factories closure due to higher costs and competition. The Fund has lower weight to the sector than its benchmark, however the exposure to Volkswagen impacted returns by 4bp due to spread widening.

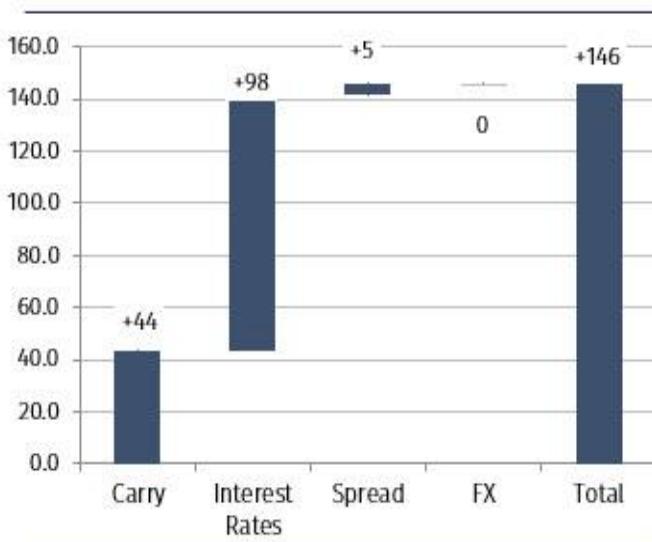
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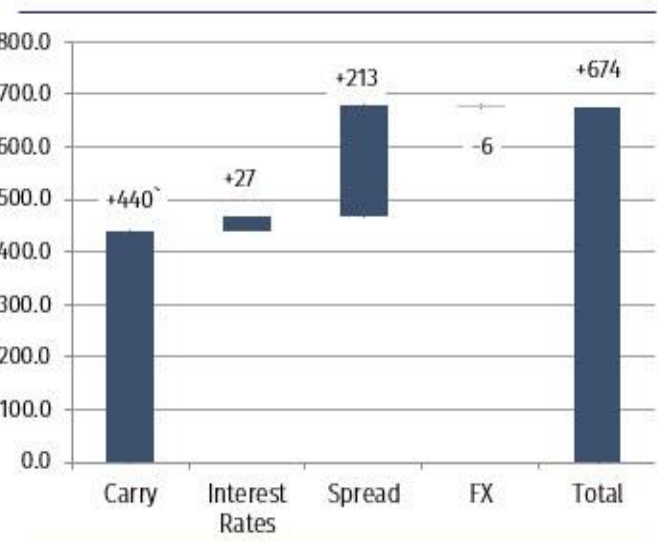
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During September new issues flooded the market however most came at fair levels versus existing curves, and several have traded wider to re-offer. We believe in times of tight spreads and falling yields, investors sometimes are tempted to chase yields and add risk. However, we believe the opposite strategy to be better, and improve quality at still attractive levels and wait for a better entry point to add credit risk. The Fund has maintained its conservative approach to credit risk with a barbell strategy that improves symmetry of returns under different scenarios. We expect October to increase volatility on the back of geopolitical events which could increase trading opportunities and dispersion in spreads.

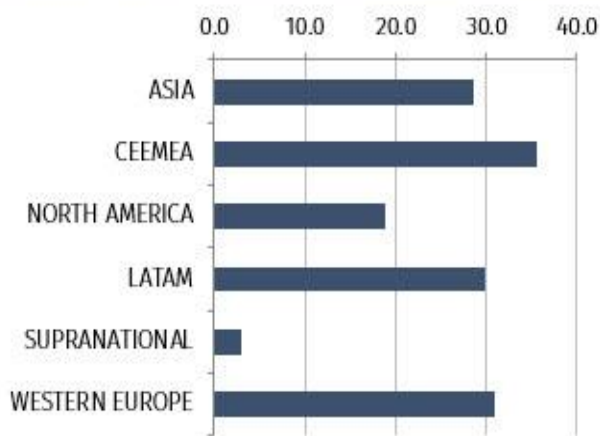
September Gross Performance Contribution by Source (bp)



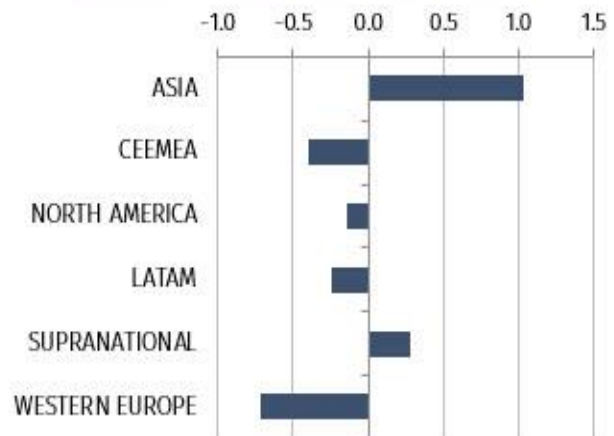
YTD Gross Performance Contribution by Source (bp)



September Gross Performance Contribution by Region (bp)



Monthly Allocation Change – Regional (%)



Past performance is not a guide to the future. The value of your investments and the income from them may fall as well as rise as a result of market as well as currency fluctuations and you may not get back the full amount invested. Fund performance is net of fees and representative of the USD I Inc Share Class and shows a maximum of five previous calendar years and current year to date (computed on a NAV to NAV basis). Where share class inception begins prior to the five previous years the chart has been rebased to 100. Where the Fund has fewer than five full years of performance, returns are shown from the inception date. Source: EFG Asset Management, Bloomberg. As at 30 September 2024. Some performance is shown gross for illustration purposes. The effect of fees will reduce returns.

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The Fund's overweight duration positioning created outperformance in September, outweighing the steepening in the yield curve.



	New Capital Wealthy Nations Bond Fund	ICE BofAML Eurodollar Index	Difference
1 Month	+1.24%	+1.65%	-0.41%
3 Months	+4.99%	+5.54%	-0.55%
6 Months	+5.52%	+5.66%	-0.14%
YTD	+5.68%	+5.41%	+0.27%
1 Year	+14.42%	+13.29%	+1.13%
3 Years	-11.15%	-2.41%	-8.74%
5 Years	-3.09%	+6.17%	-9.26%
10 Years	+26.53%	+30.62%	-4.09%
Since Inception Annualised	+4.00%	+3.50%	+0.50%
Since Inception (18/09/2009)	+80.30%	+67.83%	+12.47%

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Outlook

The Fed's 50bp cut in our view can be seen as the first move to finding a new interest rate equilibrium. The market and the Fed appear have to moved more into line, however bonds continue to price a more aggressive path than policymakers before anticipating higher long term rates. The first cuts seem relatively clear cut given how tight the policy stance appears to be, however, 2025 rate cuts could depend on how resilient the economy remains. Rate cuts are likely to have some stimulatory impact, particularly for consumers and eight 25bps cuts to our mind seems aggressive if the economy continues to expand. Although there are some cracks in areas such as credit delinquencies in certain socio-economic groups and commercial real estate, the core structural economic data such as unemployment and service sector surveys continue to suggest weakness in the manufacturing sector is being counterbalanced. Arguably, the bond market is pricing in risk that these cracks could quickly open, and yields consequently lower than the Fed's near term projections. With the US elections approaching, we expect the market to remain volatile. Fiscal policy is largely expected to remain supportive, but arguably a Trump Presidency comes with more inflationary risks, representing a risk to current market pricing. As a consequence we remain somewhat cautious going into the final quarter of the year. The optimism in the government bond market extends into the credit markets. Spreads remain near cyclical tight despite new issuance flooding markets ahead of the elections. Any widening has largely been bought into, supporting returns. Given this backdrop we have positioned the portfolio with a few core views in

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mind.

Firstly, the yield curve is likely to steepen in either a recessionary or reflationary environment. As such, our preference is to take duration risk in the most interest rate sensitive areas of the yield curve, whilst being neutral to short risk at the longer end of the curve. In a recessionary environment government yields are likely to decline, whilst spreads may widen. High quality duration should outperform, so any duration in longer maturities should be of higher credit quality in our view. As a consequence, portfolio duration exposure is focused on higher quality issuers. The core economic view remains for a stable economic environment. In this environment we anticipate spreads will remain relatively tight for some time but the room for further compression is limited with the pick up in switching into lower quality ratings buckets. As such we continue to hold lower cohorts of the credit quality spectrum, but are principally looking to maintain a low average duration in this allocation to limit the downside risks should economic data deteriorate quickly.

We continue to believe in an environment where spreads are tight, and a flexible mandate in corporate bonds that allows the manager to extract yields from the most attractive opportunities globally that can provide an attractive way to gain a pick up in yield without shifting down the quality spectrum. The market backdrop has favoured countries that have generally had a weaker financial footing over the last couple of years. With risk premiums now low, we think there is limited upside from this trade, whilst the Fund offers exposure to resilient economies which will be more stable in the event that there is a more malign shift in either the interest rate or economic environment.



We continue to believe in an environment where spreads are tight, and a flexible mandate in corporate bonds that allows the manager to extract yields from the most attractive opportunities globally.



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