For professional clients only, not suitable for retail clients.

Global Equity strategies

Quarterly Overview

30 September 2024

Overview

Market overview

Global equities were volatile during the third quarter amid heightened geopolitical tensions in the Middle East and ongoing inflationary pressures on the global economy. However, global equities have still posted gains on a year-to-date basis.

Markets continued to focus on central bank actions during the quarter, as both the Federal Reserve (Fed) and Bank of England (BoE) followed the European Central Bank in making the first rate cuts this cycle. This follows the significant rises through 2022 and 2023 as part of efforts to reduce inflation. Along with a significant stimulus package in China, this policy shift generally helped fixed income markets to perform positively over the quarter as yields fell to reflect lower central bank interest rates. Equity markets continued to rise, reflecting the hope that the policy easing would result in a ‘soft-landing for the economy with the US S&P 500 index hitting an all-time high. Despite guidance from central banks that further cuts will be measured, markets are still pricing in material rate cuts over the next year or so.

During the third quarter, the MSCI World Index Growth Index posted losses of -0.87% while the MSCI World Value Index posted gains of 5.09%.

The price of WTI crude oil lost 12.1% over the quarter to $70 a barrel, while copper futures meanwhile gained 2.1% in US dollar terms.

Performance

RL Global Equity Select (OEIC):

The portfolio underperformed the index during the quarter. HCA Healthcare, a US-based operator of hospitals and clinics, performed well in Q3, with quarterly results that exceeded analyst expectations. The company is currently in the Compounding stage of its corporate Life Cycle, demonstrating strong growth potential. In July, HCA reported impressive quarterly results, showcasing its Compounder attributes. Following a period of robust performance, the shares still retain an attractive valuation pay-off on our analysis.

Progressive, a US auto insurance group currently in the Accelerating portion of the corporate Life Cycle, was a positive contributor. Progressive steadily outperformed the MSCI World after announcing Q2 results earlier in the quarter. The current levels of growth and profitability are far ahead of management goals, and we remain positive on Progressive's Wealth Creation characteristics.

Thor Industries, the largest recreational vehicle (RV) manufacturer in the world, is currently in the Slowing & Maturing Life Cycle segment. Thor performed well in Q3, but the share price has underperformed the market this year, perhaps through no fault of its own, other than the fact that it operates in a deeply cyclical industry where there is currently nowhere to hide. A combination of high inflation and high interest rates applies pressure to demand and margins, which the market appears not to tolerate well. We remain confident in Thor's ability to generate wealth for shareholders in the long run and continue to observe an attractive valuation pay-off opportunity.

Microsoft is the largest company in the world, holding a dominant position in both computing operating systems and productivity suites through its Office software. The familiarity of users with the interface, combined with positive network effects as more users adopt Microsoft software, creates high switching costs and significant barriers to entry for competitors at any price point. Microsoft reported strong earnings in late July, alongside optimistic guidance for Azure through the year's end. However, the stock has underperformed the market since, as investors weigh the scale of its investments in Artificial Intelligence (AI) R&D and question when they will see a return on this capital. Microsoft continues to perform well against our milestones and investment thesis.

Shell, a global energy company currently in the turnaround phase of its Life Cycle, detracted from performance in Q3. The energy sector was the worst performer this quarter, as oil companies faced excess capacity and weak demand in key markets. Despite these challenges, we maintain a stock-specific focus and remain optimistic about Shell’s wealth creation potential and attractive valuation pay-off opportunity.

Dollar General, currently in the Slowing and Maturing stage of its life cycle, is the largest discount retailer in the U.S., with over 20,000 stores across 47 states. The company offers a wide range of merchandise, including consumables, packaged food, health and beauty products, home goods, and more. Dollar General announced its quarterly results toward the end of the period, which were poorly received by the market, resulting in a 30% drop in its share price on the day of the announcement. The market focused on the decline in earnings per share (EPS) and lower-than-expected comparable store sales growth, both driven by macroeconomic headwinds affecting the company’s core customer base. Despite these challenges, Dollar General continues to generate substantial cash, leading us to ask the question of how management best to allocate it moving forward.

Overview

RL Global Equity Diversified (OEIC):

The fund underperformed the index during the quarter. Among positive performers was Sprouts Farmers Market, a US-based grocery chain that offers fresh, natural, and organic food products. Sprouts leverages its scale to deliver a 'Farmers Market' experience to all consumers, focusing on providing fresh foods at good value. Sprouts reported Q2 2024 earnings at the end of July which were extremely well received by the market in similar vein to Q1. Management appears to be executing on sensible strategy for a Compounding business whilst the market values the company as it if were Slowing & Maturing, presenting a valuation opportunity.

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RL Global Equity Select (IRL):

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Lithia Motors, a US-based online and physical auto dealership in the Slowing and Maturing phase of the Life Cycle, positively contributed to Q3 performance as the automotive industry rebounded from recent macroeconomic challenges. In August, Lithia reported quarterly earnings that indicated a normalisation in demand. While short-term headwinds persist, we continue to see an attractive valuation pay-off opportunity.

Detractors included Steel Dynamics, the US steel manufacturer which is currently in the Slowing & Maturing stage of the Life Cycle, detracted from performance in Q3 following soft quarterly results. Steel Dynamics remains very strong in terms of fundamental wealth creation characteristics and the valuation pay-off continues to offer an attractive opportunity.

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Outlook

Whilst there remains significant geopolitical and macroeconomic risk, we remain focused on using our established investment process to generate alpha through bottom-up stock picking. With this volatile background, we believe that our approach of diversifying the strategies across broad range of companies from different sectors and stages of their Life Cycle will allow performance to continue to be driven more by the success of our hunting for superior shareholder wealth creating companies with undervalued long-term cash flows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

Further Information

Please click on the links below for further information:

- Stewardship and responsible investment at RLAM
- Royal London voting and engagement
- TCFD climate report

Find out more

In an uncertain geopolitical and economic environment, we recognise the importance of keeping our clients updated on our current investment thinking.

Articles, videos, podcasts and webinars giving the latest views of our investment experts can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams.

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