

## Macroeconomic Commentary<sup>1</sup>

Following a strong start to the year, global equity markets provided mixed returns throughout the second quarter. The MSCI World Index, S&P 500, NASDAQ, and FTSE 100 all experienced positive returns in their local currencies of 2.6%, 4.3%, 8.5% and 3.7% respectively, mainly driven by US technology companies continuing to outperform other areas of the market posting strong earnings reports. However, European financial markets responded negatively to the announcement of a snap election in France by President Emmanuel Macron, resulting in the Euro STOXX 50 posting a negative return of -1.6% over the quarter. In fixed income markets, yields on US, UK, and German 10-year bonds rose by 20, 24, and 20 basis points respectively, due to changing investor expectations on the likely timing of future interest rate cuts. The Federal Reserve Bank reinforced this by projecting just one rate cut in 2024 but adopted a hawkish tone at its June conference. The European Central Bank cut interest rates and indicated no rush for further cuts. The Bank of England did not cut rates this quarter but hinted at a possible move in August. In commodities, copper rose 10.6% over the quarter and hit all-time highs in May. The pound was up 0.2% and 0.9% against the US dollar and euro respectively.

## Fund Commentary

In the second quarter of the year, the Credo Growth Fund returned 2.0% while the comparator and peer group, the IA Flexible Investment Sector, returned 1.7% over the same period<sup>2</sup>. This has resulted in an annualised return of 8.0% since inception, whilst the IA Flexible Investment Sector has returned 4.9% on an annualised basis, over the same period (from inception to 28 June 2024)<sup>2</sup>.

We remain very satisfied with the Fund's performance during the period under review.

During the quarter, the Fund's equity exposure remained high such that at the end of the period, the Fund held approximately 95% in equities, 4% in fixed income, and the balance of circa 1% in cash and alternatives.

The Fund remains diversified globally with circa 72% of the assets being US dollar denominated, 16% being sterling denominated, 9% in euros and the remaining exposure in Danish krone.

The largest trades during the period under review, included adding to holdings in Rheinmetall, Solvay SA, Taiwan Semiconductor Manufacturing Company Ltd, and initiating a new position in an Indian market ETF. Profits were also taken by raising cash and reducing the Fund's holdings in Nvidia Corporation, Costco Wholesale Corporation and Uber Technologies Inc, whilst losses were taken in exiting positions GXO Logistics and Schlumberger NV, among others.

At the end of the period under review, the number of equity holdings has reduced to circa fifty-six, and the intention is to reduce this further to closer to fifty by the end of the current calendar year. The top five holdings were all equity positions comprising of Microsoft, Amazon.com, Nvidia Corp, Alphabet and Costco Wholesale Corporation. The top 10 positions made up c. 36% of the Fund.

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(1) Source: Bloomberg.

(2) Performance of the Credo Growth Fund A Retail GBP Share Class over the period 29/12/2023 to 22/03/2024.

Source: Bloomberg, FE Analytics. Inception: 3 July 2017.

## Looking Forward

The Fund continues to be diversified across both industries and sector, whilst maintaining the relatively large exposure to the US, of around 72% of the Fund.

We remain cautiously optimistic for the balance of 2024, although we expect a period of continuing volatility. After a positive second quarter of the year of 2024, we remain optimistic for the second half of the year, but do not anticipate that the Fund will have as good a second half as the first six months of the year that have just passed and would be very happy to see the Fund ending the year with a positive second half of 2024.

It appears that the interest rate cycle in the US has peaked, and that US inflation has reduced quite substantially, but remains above the Federal Reserve Bank's target of 2%. The UK and Eurozone both have also seen inflation coming down and hence, interest rates also look to have peaked, although rates are unlikely to fall back to the very low levels experienced a few years ago in both regions.

In line with comments in previous reports, there remain numerous geopolitical issues that could negatively impact on equity market returns, and hence the Fund's value during the balance of 2024. There seems to be no real sign to the end of the Russian/Ukrainian war, the middle eastern conflict and nor to the continuing frictions between China and Taiwan.

In addition, there are many government elections taking place around the world, with the big one being the US presidential election in early November 2024. Judging from recent elections i.e. France and the UK, big changes to existing governments are possible, and this is likely to materially impact economic policies, which in turn could have a material impact on equity markets in the months and years to come.

However, we still remain firmly of the view that equities remain the best inflation hedge over the long term, and whilst we fully anticipate that it will be a period of continuing volatility, and we would not be surprised to see a 5% to 10% "correction" in the equity markets during the second half of 2024, we will tend to remain fully invested in equities over the long term.

*Roy Ettlinger, Portfolio Manager*

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