STRATEGY & OUTLOOK
Market Update

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The Rally Falters

November saw the funds modestly underperform their respective benchmarks, as global equities paused their seven-month rally - finishing down about 0.8% in euro terms as better performance from European and Asian markets offset a modest pullback in U.S. indices. European stocks marginally outperformed the U.S. market, driven by stronger financial and IT sector earnings and a degree of profit-taking in previously high-flying American leaders. Cyclical and consumer-exposed areas, however, continued to underperform as the more defensive sectors of the market, like healthcare and staples, performed better.

Macroeconomic focus for the month centered on central bank maneuvering after the Fed's October rate cut. Markets struggled to adequately digest odds of a December cut as policymakers signaled growing discomfort with the speed of potential cuts. This was seen clearly in the implied probability of a December cut, which swung dramatically from around 30% to well above 90% in a matter of days. The Federal Reserve faces the difficult task of balancing a softening labor market with fairly resilient consumer spending and AI-related business investment, all complicated by a sparsity of economic data due to the longest government shutdown in US history.

The recent earnings season validated the profitability of large-cap growth and quality franchises, with global earnings growth continuing to be led by the technology and communication services sectors, particularly in the U.S. and European IT. In Europe (ex-UK), robust financial and IT results contrasted sharply with weaker outcomes in cyclical consumer sectors, such as autos, underscoring a persistent divergence between capital-light, structurally advantaged companies and volume-driven, cyclical industries. Overall forward guidance, particularly for 2026, remained broadly supportive, with Europe's lower concentration of tech names providing a relative buffer against volatility compared to the highly concentrated U.S. market.

A notable late month development was the renewed focus on Google's TPUv7 "Ironwood" as a credible alternative to Nvidia's latest Blackwell class GPUs, highlighting the growing competitive intensity. From a market perspective, this narrative shift fed into existing concerns about concentration risk in the AI supply chain: Google's progress, alongside growing interest in alternative accelerators, added another layer of uncertainty to the very long dated revenue trajectories currently embedded in Nvidia's valuation. At the same time, Nvidia executives pushed back in late November commentary, arguing that their Blackwell platforms remain at least a "generation ahead" when software maturity and ecosystem depth are considered, underlining that any transition away from their stacks is likely to be gradual rather than abrupt.

The positioning of the funds remains towards the lower end of the growth asset allocation range, as our current concerns - flagged a number of times previously - surrounding the AI ecosystem, the rapidly growing levels of Capex involved and elevated valuations of the major players have not yet subsided. The defensive nature of utilities, in addition to their exposure to rising power demand, sees them as our largest overweight. November saw us add positions in regulated UK water utilities based on the structural growth and upgrades the sector should see in the coming years driven by environmental and capacity-related pressures, but whose valuations do not arguably reflect this growth path as of now. We also added a number of European banks based on their largely undemanding valuations and general high quality, while closing positions in some more consumer exposed names based on a lack of any real rebound in the end consumer. We continue to maintain our significant underweight in the Mag 7 and believe that the market does not adequately price in the political and economic risks in Europe, while conversely underestimating the growth in the US, as a result we continue to be overweight the US dollar. Despite volatility in the short-term, we continue to believe the conditions needed for a continuation of solid market performance over the coming years remain.

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