Monthly Market Commentary

Most global equity markets started the year strongly, but it was the strength in European bourses outperforming US markets, that was perhaps January's stand out feature.

Better-than-expected Eurozone economic data helped drive part of this rotation. However, EU stocks also likely benefited from their significant valuation discount relative to more expensive US stocks, a topic we covered in the Talaria December 2024 Quarterly Report.

Also contributing to Europe's outperformance was the region's lack of exposure to mega-cap tech stocks. These came under intense selling pressure as news emerged of China's growing AI capabilities. The biggest casualty was global chip designer NVIDIA, whose market cap fell by approximately USD 600bn - the largest single-day drop ever for a US company.

Highlighting further how concentration can work both ways, US markets also underperformed thanks to some mixed results amongst mega-cap names. For example, Microsoft shares dropped 6.2% after issuing disappointing Q3 guidance, including softness in its Azure unit. Apple also struggled throughout the month following reports of lacklustre sales in China.

Despite these headwinds, US markets delivered decent results with the S&P500 and NASDAQ, up 2.7% and 1.6%, respectively. Small caps also did well with the S&P600 Small Cap Index rising 2.8% during the month. As noted above, European bourses led the way in January with the German DAX up 9.2%, followed by the French CAC, up 7.7% and UK FTSE, up 6.1%. Asian markets were more muted with Japan's Nikkei 225 down 0.8% and China's Shanghai Composite also weaker by 3%.

Against this backdrop, Information Technology was the only sector to finish in the red, falling 1.5% during the month. In contrast, Telecommunications was the best performing sector, rising 8.7%. Financials also did well, up 6.5%, thanks to higher capital market fees and no signs of stress in lending books.

Health Care was another strong performer, up 6.3% during the month as investors rotated back into the sector. Energy, Utilities, and Staples also performed well, rising 2.5%, 2.3%, and 1.8%, respectively.

The AUD rose 0.5% against the USD, with the US Dollar Index also broadly flat for the month following a period of sustained strength. Commodities were stronger with the Bloomberg Commodity Index rising 4% with WTI Oil also up 1%. Yields on 10-yr US government bonds fell 3bps to close at 4.54% while VIX fell 0.9 points ending the month at 16.4.

During the month, the Fund exited its positions in Japanese financial services group Sumitomo Mitsui Trust Group and Japanese telecom company KDDI Corp, both on valuation grounds

Pharmaceutical giants Roche and Sanofi were the two biggest contributors to performance. Both participated in the broader healthcare rally after posting good results with FY25 EPS guidance of double-digit growth at Sanofi and high-single digit growth at Roche, excluding FX. Sanofi also announced a ~EUR5bn buyback program accounting for ~4% of its current market capitalisation. French catering group Sodexo was the biggest detractor with the shares underperforming due to disappointing Q1 volumes. However, with the stock trading on a ~12x P/E, no balance sheet risk, and the group still delivering >4% organics sales growth, we will continue to hold and see good upside for shareholders over the medium term.

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