Evenlode Global Equity Investment View

January 2025 – 2024 update

EVENLODE
GLOBAL EQUITY FUND

Summary

The Evenlode Global Equity fund returned +3.7% in the final quarter of 2024, trailing its comparator benchmark, the MSCI World Index, which returned +6.9%. For the full calendar year, the fund returned +7.8%, against a benchmark performance of +20.8%. This relative performance is disappointing, though follows a three-year period (2021-2023) of outperformance against both the benchmark and the wider IA Global Sector peer group. As always, we re-evaluate our decisions and processes to seek incremental improvements, but the philosophy remains unchanged. We invest in high quality companies that steadily compound cash flows over time, at sensible valuations.

There are reasons for optimism as we head into 2025. We are unlikely to see a repeat of the market performance over the past twelve months, which was driven by a narrow group of companies and dependent on ever growing semiconductor capital expenditure. While some macro uncertainty remains (as ever), a clearer path of interest rate expectations should unfold now the Trump administration has taken office.

At the company level, the portfolio constituents continue to post encouraging fundamental performance, with growth in organic revenues and profits above the benchmark median. These companies have durable competitive advantages and face lower risk, relative to the average company. Despite this, the portfolio starts at a cheaper starting valuation against the benchmark. As quality investors, our goal is to seek this combination of growth, risk, and value. It is rare to find it this clearly signposted. We therefore remain confident that the Evenlode focus on steady, unspectacular fundamental compounding is the right formula for the patient investor and look forward to the year ahead.

Q4 2024 overview

The last quarter of 2024 was unusually busy owing in large part to the major clearing event of the US presidential election. In anticipation of the Republican victory, the all-important US 10-year yield began softening in September, and by New Year's Eve have moved up by nearly a full percentage point to 4.58%. The rise in yields rolled on after the election, which eventually pulled the oxygen out of a broad 'everything rally' in US stocks immediately after the election, with the small-cap Russell 2000 in particular, retracing to where it had started. Importantly, the closely watched 3-month/10-year US treasury yield curve un-inverted in the quarter, after over two years of inversion – in layman's language, the borrowing costs for short-term money at last fell to below those of long-term money, a welcome sign of a return to normality although also, in the past, a sinister harbinger of a recession to come[i]. Importantly, credit spreads continued to tighten significantly in the quarter, wholly offsetting the impact of higher rates and keeping financial conditions very accommodative for now.

As mentioned above, the outlook for US inflation and fiscal policy is seen as key but remains essentially unknowable to anyone without a crystal ball. What we do see, and which is remarkable, is the softness of earnings in the broader corporate market which has not fed through to equity market weakness. Raymond James analysts estimate that, excluding a handful of mega-cap US tech names, the aggregate earnings-per-share growth of the rest of the US market was negative for most of 2023

and 2024, and this anaemic pattern has been repeated by the MSCI Europe Index. In the context of the macroeconomic blows of 2022 when interest rates and energy prices rose so furiously, this is perhaps unsurprising, resembling the early 1970s. What was different in this event was the powerful capex cycle in AI mentioned above, helped by the continued penetration of the wider economy by big internet platforms like Alphabet, Meta, Amazon and Microsoft.

Consumer spending globally has been unsurprisingly very soft, with spending trends soft for all groups outside the very top of the income distribution, as even the stalwart US consumer struggles under the burden of heavy inflation. While goods inflation is largely over outside pockets like eggs, chocolate and coffee, inflation in non-discretionary service items like rent, insurance premiums, and out-of-pocket health care costs has stayed persistent. We can't predict when the consumer either recovers or rolls over entirely. The pattern over the last two years of repeated false dawns of market 'broadening' followed by narrowing, match up nicely to persistent downward revisions to broader equity earnings.

With all this being said, we continue to own companies which are insulated from the trends discussed above. In aggregate they have continued to compound their sales and earnings at a healthy rate in the teeth of the headwinds which have stalled the broader index. They are also much less exposed to swings in funding costs than the wider market as a result of their lower starting leverage, their superior cashflow conversion, and their pricing power; this costs us when funding costs decline (as they broadly did in 2023-2024 as a result of spread tightening) but we are content to make this trade-off.

The outlook for the portfolio remains to our minds superior to that for the broader market. Portfolio companies all have multiple independent idiosyncratic drivers of growth which will continue to underpin their operations in a very broad spread of different outcomes for rates, credit spreads, consumer spending, or corporate capital expenditure. With that said, we keep a close eye on the wider economy and stay thoughtful about how effects can spread to the portfolio despite the insulation of pricing power, cash conversion, and low leverage.

We look forward to being in touch again soon.

Chris, James, Cristina, Gurinder, and the Evenlode Team

30 January 2025

Evenlode has developed a Glossary to assist investors to better understand commonly used terms.

Please note, these views represent the opinions of the Evenlode Team as of 30 January 2025 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security, or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. For full information on fund risks and costs and charges, please refer to the Key Investor Information Documents, Annual & Interim Reports and the Prospectus, which are available on the Evenlode Investment Management website (https://evenlodeinvestment.com). Recent performance information is also shown on factsheets, also available on the website. Past performance is not a guide to future returns. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Fund performance figures are shown inclusive of reinvested income and net of

the ongoing charges and portfolio transaction costs unless otherwise stated. The figures do not reflect any entry charge paid by individual investors. Current forecasts provided for transparency purposes, are subject to change and are not guaranteed. Source: Evenlode Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 767844.

Market data is from S&P CapIQ, Bloomberg and FE Analytics unless otherwise stated.

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[i] *The 3-month/10-year, ignoring Covid, previously un-inverted this century in January 2001 and August 2007.*