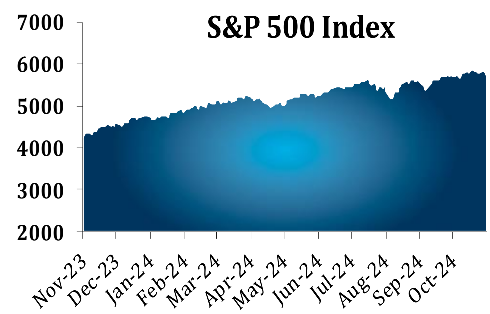
This Month in the Markets

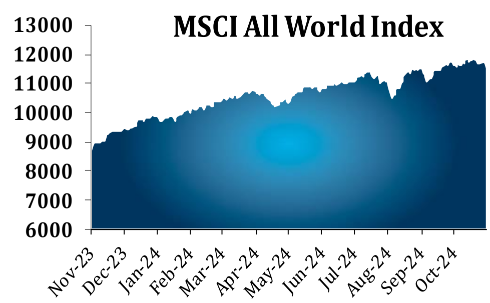
October 2024

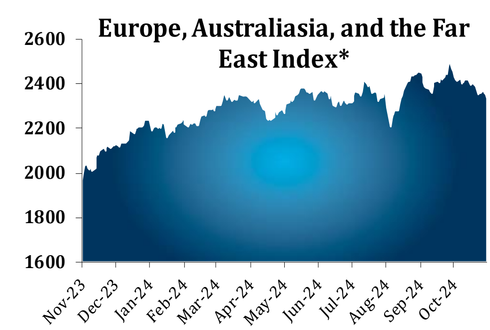
ANCHOR Investment Management

Equity Commentary: Do not put Politics in the Portfolio

October was a more volatile month as growth concerns, rising interest rates and US election anxiety led to weaker markets. As a result, the MSCI ACWI Index fell 2.2%. The MSCI Emerging Markets Index had a larger drop of 4.3% on fears of higher US and European import tariffs. International shares again led declines, with the S&P 500 Index falling only 0.9% compared to the drop of 5.4% for the MSCI EAFE Index. Value underperformed growth in terms of investment styles, with the MSCI All Country World Growth Index falling 2.0% while the MSCI ACWI Value Index was down 2.4%. The MSCI ACWI Financials Index and the MSCI ACWII Communications Services index posted small gains of 0.1%, with solid banking results and decent returns from traditional telecom names. Conversely, the MSCI ACWI Materials Sector Index declined by 5.9%, primarily due to lingering growth concerns and uncertainty over support measures announced in China.







*MSCI EAFE Index

The media would have you believe that every election is critical to the financial markets. History, however, would suggest that fundamentals play a much greater role in the outcomes of markets. Asset class performance during Democratic or Republican presidential terms shows no discernable pattern and often asset class returns perform counter to what one would expect. Take for example the returns on energy or clean energy stocks during the Trump and Biden terms. During Trump's presidency, energy stocks posted negative returns and very negative relative returns. Yet under the Biden presidency, one in which there was an enormous focus on the environment, energy stocks rallied and posted strong absolute and relative returns, while clean tech shares struggled. It is prudent that investors vote for sound investment principles and procedures such as diversifying, investing for the long term, and focusing on high quality assets.

We had three sales in the month. We sold Booking Holdings Inc. ("BKNG") as its recent rally brought it to the point of being fully valued. We also sold Imperial Oil Ltd. ("IMO") as it too achieved our target price value. Finally, we sold Elevance Health Inc. ("ELV") as its struggles with Medicare and Medicaid cost issues that appear unlikely to be resolved over the medium term which is pressuring profitability.

We also purchased Skechers USA Inc. ('SKX"). which is a compelling growth story that has underappreciated revenue and EPS growth. The company's innovative footwear technology has led to 20%+ earnings growth in 2023 and 2024. We also bought iShares FTSE/Xinhua China 25 Index ETF ("FXI") to play the resurgence of the Chinese equity market after the announcement of extensive Chinese stimulus measures. We believe that this may be the whatever it takes moment for Chinese authorities, and we view Chinese equities as very cheap. Finally, we established a position in Genmab A/S ("GMAB"). The biotech company is profitable with 98% gross margins and a 5-year average free cash flow margin of 35%. The main investment thesis is that, based on our modeling, analysts are assigning a value of zero to its entire pipeline of drugs, of which 5 drugs are in Phase 3 with readouts in 2024-2025. If the company can commercialize these drugs and return anything close to its historical returns on R&D, the upside for shares could be significant.

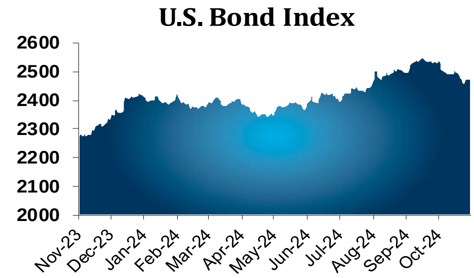
Elanco Animal Health Inc ("ELAN") experienced the largest decline in October, with its stock falling 14% on no particular news. In contrast, Maplebear Inc. ("CART") was the top performer, with its stock rising 8.2% as the market increasingly comes to terms with the fact that CART is the dominant player in the very underpenetrated online grocery market.

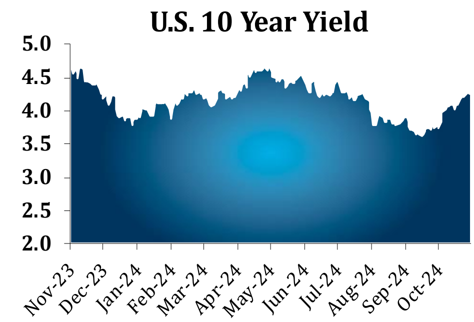
Fixed Income Commentary: Rates Soar in October

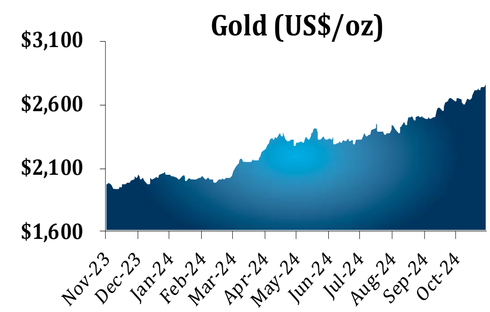
Treasury rates rose in October, a reversal of the falling rates trend that characterized the third quarter. The 2-year treasury yield rose 0.53% to 4.17% while the 10-year treasury yield rose 0.50% to 4.28%. At the end of September fed fund futures suggested seven and a half 0.25% rate cuts by the Fed by the end of 2025. At the end of October this number fell to under five. Thus, the Fed is still expected to cut the policy rate, but market expectations have been pared back. One cause of the increase in interest rates was stronger than expected economic data in the US including: the Institute for Supply Management Services (ISM) Purchasing Managers Index, GDP growth, payrolls (which have since been revised lower), and retail sales. Another likely contributor was Trump moving ahead in the polls/betting markets as the slight favorite to win the presidential election (and greater chance of a Republican sweep). Both Presidential candidates are proponents of government spending which is expected to continue the 20+ year trend of budget deficits (the year-to-date budget deficit is 6.3% of GDP). However, Trump's policies are expected to require greater funding than Harris.' The Committee for a Responsible Federal Budget expects Trump's spending plans to add $7.5 trillion of debt between 2025-35, compared to $4 trillion under Harris.

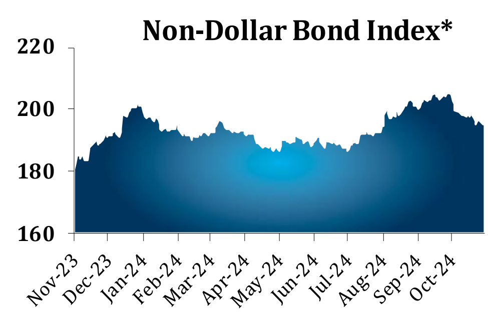
The increase in interest rates fed through to the U.S. Dollar which appreciated in October. Dollar strength was widespread, versus both developed markets and emerging markets currencies. For example, the dollar rose versus the British Pound (3.6%), Japanese Yen (5.8%), Canadian dollar (2.9%), Euro (2.3%), Brazilian Real (6.2%), and Mexican Peso (1.8%). Like with rates, expectations surrounding the U.S. presidential election likely also contributed to the dollar strength. The thinking goes: greater fiscal spending leads to stronger economic growth, which underpins inflation, which therefore necessitates the Fed to maintain a tighter monetary policy, all else equal. Ultimately, it is difficult to place a high degree of confidence in how the market will react to a new president given the significant unknowns as to how they will actually govern and to what extent they can get their objectives passed in the House and Senate.

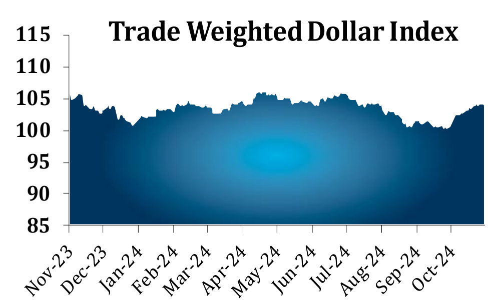
Unlike the volatility we saw in interest rates, credit spreads were unshaken. Credit spreads remain very tight - meaning investors are not receiving much compensation for taking on credit risk. The ICE BoA Investment Grade Index credit spread is in the 7th percentile of its history (January 1997 inception) – investment grade spreads have only been tighter 7% of the time. Meanwhile the ICE BoA High Yield Index credit spread is in the 5th percentile. The resoluteness of credit spreads in the face of rising interest rate volatility and higher equity market volatility in October reflects investor's sanguine perception of credit risks in the wider market. October's high yield market issuance was the highest monthly October issuance since 2021. High yield issuance year-to-date is 179% higher than 2023 ($257.671 billion). Investment grade issuance through the end of October was $1.358 trillion, 28% higher than the same period in 2023. As such, demand for corporate credit remains robust despite credit spreads lingering at historically tight levels.











*Merrill Lynch Global Broad Market, Ex US Dollar Index

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