BELVOIR
CAPITAL AG

September 2024

Belvoir
Global Allocation II
Universal

Monthly Update

- September – things often turn out differently than expected!
- USA – Interest rate turnaround has begun, soft landing likely
- Sector Rotation – Defensive sectors continue to perform
- Belvoir Global Allocation II Universal Fund gained **+0.8%** in September and is up **+7.9% YTD**

Contrary to all statistics and market expectations, we experienced a positive end to the summer in the stock markets over the past four weeks. While the world elite competed for medals in all disciplines at the World Cycling Championships in and around Zurich from mid-September, the capital markets experienced a good month on the stock markets. At the beginning of the month, as in August, the market initially sold off, but this was quickly recovered when the FED cut interest rates by 50 basis points instead of the anticipated 25. The initial uncertainty in the markets about the state of the U.S. economy subsided. Forecasts about a potential soft landing in the U.S. seems to come real for the first time since we have been monitoring the markets. As a consequence, the S&P 500 closed at an all-time high on September 30. However, as in July and August, different stocks than in the past drove the performance. Big Tech took a rest and defensive sectors, above all consumer staples and healthcare stocks, reported significant price gains. When the Chinese National Bank felt compelled to cut interest rates at the end of September combined with a stimulus package due to weak economic conditions, the long-suffering Chinese equity market gained over 20% in value within just a few days. All companies in Europe and the U.S. with revenues highly dependent on the economic cycle in China, such as luxury and automotive stocks, benefited from the rally in China.

The yields on 10-year U.S. Treasuries also remained stable, trading in the range of 3.65% to 3.9%. Due to the interest rate cuts, the yield differential between 2-year and 10-year bonds turned positive for the first time in a while. Normally, this is an indication of an upcoming recession. However, the U.S. economy continues to grow, albeit at a slower pace, around 2%. Inflation also seems to be under control, close to the target range of 2-2.5%, which sets the stage for a "Goldilocks Scenario" in 2025. It's important not to overlook, though, that 42% of all companies in the S&P 500 are operating at a loss, which is likely to worsen if the economy cools down. Europe has experienced zero industrial growth since 2011, and Germany's economy is shrinking. Only a few companies are seeing strong growth and generating high profits with free cash flows. Companies like Apple and Nestlé, for instance, are no longer growing organically. Profits could only be maintained thanks to an expansion of margins. Therefore, it's crucial to focus on quality. The past reporting season in Europe and the USA revealed that any company not positively surprising the market is being heavily penalized—an unmistakable sign that the market is becoming more discerning, which underscores the importance of sound stock-picking strategies.

Due to the FED's interest rate cuts and the narrowing interest rate differential between the EUR and USD, the Greenback is coming under pressure. From its mid-April high of around 1.06 against the EUR, the USD continued to lose ground, ending September at 1.11. The currency exposure should therefore also be taken into account. We always hedge around 2/3 of our USD positions in the fund, as we don't engage in currency forecasting. Gold was a positive highlight, breaking through the old high of USD 2,450 per ounce as early as August and continuing its rally towards USD 2,650 in September. Unfortunately, we cannot hold physical Gold in the fund as a consequence of regulation.

Performance and Positioning

With an equity allocation of approx. 78% gross and 58% net, we increased our equity weightings again during the weakness at the beginning of September. We have consistently pursued the sector rotation we forecasted in our allocation, reducing the tech exposure in equities to about 12%. The Consumer Staples and Discretionary sectors remain significantly overweighted at around 17%. With close to 9% cash and approximately 31% allocation in conservative, short-term bonds, we are well-positioned for a potential correction in October. The fund currently shows a yield to maturity of 3.99% in the portfolio.

Our 2.5% position in Nvidia was used again for trading. On September 4th, we bought the stock around 109 USD and sold on September 17th at 115 USD. We also sold our position in Apple, as the stock no longer meets our fundamental criteria. We took profits in Procter & Gamble, as we see limited upside potential in the medium term after the run up of defensive stocks. Freeport McMoRan was the strongest performer in the fund with +11.83%, followed by Meta (+8.93%) and Deere (+7.32%). The laggards in September were Nu Holdings (the largest online bank in Brazil) with -9.54%, TotalEnergies (-5.93%, although a dividend of 4.6% was paid), and Georg Fischer (-5.21%). Worth mentioning are the positions we built up in the luxury goods sector in mid-August, although our timing was not ideal. With a total weighting of around 6% in LVMH, Kering and Hermès, the focus is on the three major umbrella brands in this sector, which bottomed out towards the middle/end of September and have increased in value by between 15-20% since the China interest rate cut. We remain positive on this sector and expect further price increases by the end of the year after a longer consolidation phase.

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Further information on the Belvoir Global Allocation II Universal Fund can be found on our Website. Feel free to contact us with any questions about the fund—we appreciate all feedback.

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