# FUND COMMENTARY – Q1 2025
# CT GLOBAL FOCUS FUND

**David Dudding**
Fund Manager

**Alex Lee**
Fund Manager

## Summary


- Global equities fell in the first quarter (Q1) of 2025 in local-currency terms.
- Gross of fees, the fund underperformed its benchmark during the quarter.[1]
- New purchases included Experian, Intercontinental Exchange and Walmart.


## Market Background

Global equities fell in Q1 2025, with the MSCI All-Country World index (ACWI) returning -2.0% in local-currency terms. President Trump’s flurry of executive orders, tariff announcements and mixed messages on Ukraine contributed to heightened uncertainty and, in turn, market volatility over the quarter. Concerns that the impact of tariffs could derail global trade and economic growth, and therefore push up inflation, posed further headwinds. Meanwhile, the “Magnificent 7” and other major technology stocks sold off sharply as investors questioned firms’ large capital spending commitments after Chinese start-up DeepSeek launched a new low-cost AI model. These developments, along with deteriorating US sentiment indicators, resulted in a broad valuation reset across markets globally, with value outperforming growth.

In the US, initial optimism about the new administration’s pro-growth agenda was later erased by the technology sell-off caused by DeepSeek and Trump’s tariffs. Towards the end of the quarter, fears about a global trade war were heightened as the president threatened sweeping “reciprocal tariffs” on US trading partners. Worries that these measures could impact growth and increase inflation weighed on consumer sentiment. For instance, in March, a key measure of US consumer confidence fell to its lowest level in four years. Meanwhile, the Federal Reserve left interest rates steady at both its meetings over the quarter; in March, the bank raised its forecasts for inflation in 2025 and 2026.

European equities outperformed over the quarter. Following President Trump’s shift away from traditional Western defence alliances, European countries pledged to increase government spending, particularly for defence. Notably, the new German government launched a historic fiscal stimulus package by abandoning a government debt brake that had been in place since the global financial crisis. As a result, Europe is now expected to see stronger growth in 2025 and 2026 than previously anticipated. Meanwhile, the European Central Bank lowered interest rates twice during the quarter, though the annual inflation rate in the eurozone remained slightly above its 2% target.

UK equities benefited from a rotation to value. The market’s sizeable defensive exposure also proved beneficial amid bouts of turbulence. Like its European counterparts, the UK government outlined plans to increase military aid to Ukraine and increase spending, which heightened concerns about the burgeoning deficit. The chancellor’s Spring Statement further highlighted the country’s narrow fiscal headroom, with government spending cuts, planning reforms, welfare reforms and measures to enhance tax compliance all featuring. In terms of monetary policy, the Bank of England cut interest rates in February but held fire in March, with the governor stating that policymakers need more data to assess the trade-off between the slowing UK economy and the persistence of wage and price pressures.

The export-heavy Japanese stock market was hindered by a stronger yen. The Bank of Japan hiked interest rates by 25 basis points in January, which bolstered the currency, as did subsequent hawkish commentary from policymakers. Tariff-related uncertainty also weighed on sentiment, particularly following news of levies on auto imports to the US, announced in late March. Meanwhile, the many technology names in the index were hit hard by the DeepSeek-related sell-off.

Elsewhere, for emerging markets (EMs), concerns about US tariffs were outweighed by a weaker US dollar and strength in the large Chinese market. These stocks rallied amid optimism about further stimulus measures from Beijing, and as technology names outperformed following the emergence of DeepSeek and hopes of government support for the sector.

Of the major equity regions, the US and Japan fared worst in local currencies over the quarter, underperforming the ACWI. Europe ex UK and UK equities materially outperformed the index, while EMs also fared well, posting a modestly positive return.

At the sector level, technology was unsurprisingly the worst performer given the sharp falls in AI-related stocks. Consumer discretionary also lagged, followed by communication services. Energy fared best, helped by rising oil prices. Utilities, consumer staples and healthcare also outperformed, benefiting from a rotation to defensive areas of the market.

## Performance

Gross of fees, the fund underperformed its benchmark in Q1.[1] Sector allocation drove the relative underperformance, with the overweight in technology and underweights in consumer staples and energy detracting most. However, the overweight in industrials added value. Stock selection also detracted from relative performance in aggregate, largely due to choices in the communication services, healthcare and technology sectors, although picks in financials were beneficial.

At the stock level, Taiwan Semiconductor Manufacturing Company (TSMC) was the biggest detractor. The shares declined amid growing concerns about AI infrastructure capital commitments and new US restrictions on exports of high-end semiconductors to China.

Our holding in Microsoft also had an unfavourable impact as the shares were hurt by the wider pivot away from high-growth technology stocks and the volatility triggered by the emergence of Chinese company DeepSeek's new AI model. We maintain conviction in the position. Microsoft boasts large distribution channels and an installed customer base, which serve as durable advantages in the industry. We believe this competitive edge and the company's Azure platform position it well to benefit from the business world's transition to cloud technology. Other growth drivers for Microsoft include its Office 365 software – a subscription package that promotes recurring revenues. The firm continues to build its presence in gaming with the expansion of its Xbox cloud gaming service. On the AI front, Microsoft has benefited from a head start over sector peers and continues to expand its capabilities. In our view, the adoption of low-cost AI models should help Microsoft generate scale efficiencies and boost margins. Management has emphasised that the company is well placed to help its customers – for instance, by improving productivity – amid tougher macroeconomic conditions.

More positively, our lack of exposure to Tesla proved beneficial. The stock sold off amid concerns about declining sales and the impact of trade tensions.

Our Howmet Aerospace holding was also helpful. Investors grew increasingly bullish about the company's earnings outlook given the ongoing strength of both the commercial and defence sides of the aerospace industry. The company then followed up with strong Q4 2024 results later in the period. Our conviction in Howmet rests on its strong reputation as a world-class producer of aero engine and industrial turbine components. We also see Howmet as being at the forefront of innovation and change in manufacturing components. The company's advanced manufacturing expertise and innovation is helping to improve the efficiency of equipment and driving high-performance engineered solutions. Furthermore, Howmet provides differentiated technologies that are transforming the aerospace and commercial transportation industries. The company also benefits from strong partnerships with transportation giants such as Airbus. We believe Howmet will be a key beneficiary of growing demand for travel, particularly in EM countries.

## Activity

In terms of activity, new purchases included Experian, Intercontinental Exchange (ICE) and Walmart.

Credit scoring firm Experian boasts a strong competitive position and robust margins. The company's direct-to-consumer channel is a major advantage in developing markets, helping potential customers who may never have had a credit card or bank account to participate in the formal financial system for the first time. Furthermore, after several years of consistent investment in technology and new products, the company has enhanced its product offering.

[1] Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

ICE operates in an effective duopoly, with CME Group, in the futures exchange industry. As well as providing clearing services for multiple types of futures contracts, ICE has a data business that relays information, including pricing and volume figures, to traders. The firm is also moving into new areas, such as mortgage services, where it aims to automate mortgage origination – if successful, this would be a very attractive proposition. While ICE's revenues are somewhat volatile, they should grow over the cycle and the company's free cashflow yield is superior to peers.

Walmart is a leading US retailer. The company has a nearly 25% share of the market and, in our view, is well positioned to grow this following a period of investment in the business. Walmart is able to leverage its scale and digital expertise to offer value to consumers in times of uncertainty, which gives it a competitive advantage among its peers and should help it to gain share in the omnichannel market, offering scope for network effects going forward. With e-commerce losses stabilising and improved performance from alternative profit streams, we see strengthening fundamental drivers for Walmart in an uncertain macro environment.

We profitably sold Insulet and Renesas Electronics after periods of strong performance. Other sales included S&P Global, Waste Connections and Intuit, where we used the proceeds to pursue higher-conviction opportunities elsewhere.

## Outlook

The new US administration has undoubtedly created uncertainty both geopolitically and for equity markets. This is not necessarily expected to abate in the near term, and macroeconomic headwinds have recently increased.

However, high-quality, well-managed companies should continue to perform well over the longer term. In our view, those companies with strong fundamentals that have weathered the challenging operating environment of the past few years will likely continue to outperform, and we plan to take advantage of bouts of volatility to add to high-conviction names.

We also continue to believe that, in environments like this, diversification will remain important, particularly as investment to tackle issues such as decarbonisation, deglobalisation and energy efficiency creates a broader opportunity for earnings growth. Our focus remains on building a diversified portfolio of quality businesses that are multi-year compounders, with pricing power and less gearing to the broader economy. We believe that our bottom-up approach will allow us to find such quality growth companies across a range of sectors and geographies.

## Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The fund has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the fund's value.

The fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

An investment style bias can impact a fund's performance relative to its benchmark in a positive or negative way. No investment style performs well in all market conditions. When one style is in favour another may be out of favour. Such conditions may persist for short or long periods. A fund exhibits a growth style bias relative to its benchmark if the majority of the fund invests in companies with above average growth rates, or good growth potential (based on indicators such as earnings and sales growth) relative to its benchmark. However, there is no guarantee that such companies will continue to show such characteristics in the future. A fund's investment style may also change over time.

The fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe and may impact the performance of the fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.