Benguela Global Equity UCITS Fund Commentary: Q2 2024

By

Zwelakhe Mnguni, CIO; Grant Nader, Portfolio Manager
Heads of Research: Victor Seanie (SA) and Paul Ross (Global)

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The Benguela Global Equity UCIT Fund (BGEUF) showcased commendable performance for the quarter ended 30 June 2024, recording a robust return of 4.08%, significantly surpassing the benchmark return of 2.87%. This solid achievement was realized despite a volatile quarter marked by the growing irrational exuberance surrounding stocks associated with artificial intelligence. This strategic outperformance serves as a pivotal step towards narrowing our relative performance backlog of 0.4% p.a. accumulated over the past three years. This relative performance backlog has predominantly been a result of our steadfast commitment to a proven, meticulous, and risk-conscious investment approach, rather than succumbing to the temptation of chasing short-term relative performance driven by growing irrational exuberance surrounding stocks linked to artificial intelligence.

The US Technology, Media, and Telecom (TMT) sector's trillion-dollar market cap race appears increasingly disconnected from economic reality. Driven by investor euphoria and speculative fervor, these towering valuations often overshadow the grounded performance metrics and realistic growth prospects of the companies involved. While technological innovation and market leadership justify some premium, the exuberance reflected in these market caps may not be fully sustainable, especially when juxtaposed against broader economic indicators such as GDP growth, consumer spending, and income levels. For example, at the current Nvidia market capitalisation is now bigger than the individual market value of both the entire UK and German stock markets. Ditto for Microsoft and Apple. This misalignment suggests that the market's lofty expectations could be outpacing the fundamental economic contributions of the TMT sector, setting the stage for potential recalibrations as rationality reasserts itself in equity valuations.

The BGEUF's disciplined strategy, grounded in long-term value creation, continues to demonstrate its efficacy, reinforcing our unwavering confidence in the fund's enduring potential and resilience in the face of market volatility. We remain confident about the efficacy of our investment approach and its potential to deliver sustained value-add to investors in a complete market cycle.

Market Environment: A Word of Caution On The US TMT Sector

For the quarter ended 30 June 2024, global equity markets exhibited mixed performance influenced by varying regional economic trends and financial conditions. US equities delivered

strong returns, buoyed by robust corporate earnings and economic resilience, achieving a total return of +4.0%. In contrast, European equities underperformed, hindered by subdued economic growth and persistent inflationary pressures, culminating in a modest total return of +1.0%. Asian equities experienced volatility, impacted by fluctuating investor sentiment and geopolitical tensions, ultimately posting a total return of +2.7%. Emerging markets were strong performers with +5.1% total return. Within EM the MSCI BRIC was the best performing component at +6.4%. Overall, divergence across these regions highlighted the diverse economic environments and market dynamics influencing global equity performance.

The strong performance of US equities in the quarter ended 30 June 2024 was predominantly driven by notable gains in several key sectors. Technology stocks led the charge, with a total return of +13.0%, driven by innovative advancements and robust demand for digital solutions around artificial intelligence.

The robust performance of US equities in the Technology sector during the quarter ended 30 June 2024 was largely propelled by extraordinary gains in several high-profile companies and emerging tech trends. Leading the surge were prominent players in the semiconductor industry, such as NVIDIA and TSMC, which posted impressive returns of +36.7% and +24.0% (in US$), respectively, fueled by burgeoning demand for advanced chips in artificial intelligence (AI) and data centers. Major cloud computing corporations like Microsoft and Amazon Web Services (AWS) also contributed significantly, with Microsoft's Azure and AWS achieving year-over-year revenue growth of 31% and 17%, respectively, resulting in stock returns of +6.2% and +7.1% for the quarter. The ongoing digital transformation across industries continued to drive demand for cloud-based solutions, bolstering these tech giants' performances. Moreover, companies in the cybersecurity space, such as Palo Alto Networks and CrowdStrike, witnessed substantial gains, with returns of +19.3% and +19.5%, respectively, as businesses prioritized security amidst rising cyber threats. Additionally, the rise of electric vehicles (EVs) and autonomous driving technologies further stimulated the sector, with Tesla and Rivian posting quarterly returns of +12.6% and +22.6% respectively.

The strong rally in Telecom, Media and IT sector stocks has led to extended valuation indicators as market participants appear to be caught up in the hype of artificial intelligence. The world TMT sectors are trading at an aggregated trailing earnings multiple of 34.5x compared to a historic average of 20.3x over the past twenty years. In contrast, the world market excluding TMT is currently trading at a less challenging 18.0x multiple compared to 16.3x average over the past twenty years. An argument often thrown out by the enthusiasts is that when imminent growth is considered, the TMT stocks offer attractive prospects. However, as can be seen in the two charts below, even forward-looking valuation indicators look ominously extended relative to history.

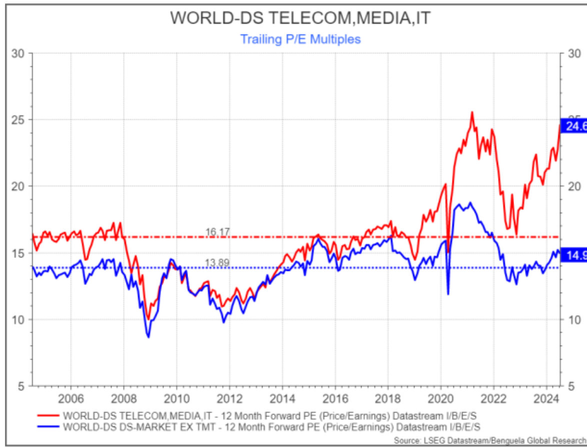


Figure 1

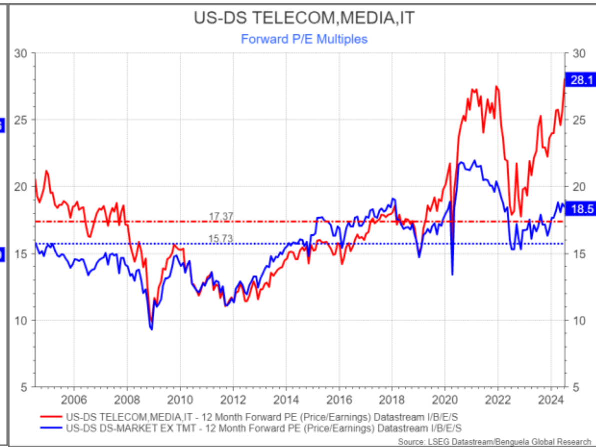


Figure 2

Our cautious stance on the overextended TMT sector multiples is also supported by evidence in figures 3 and 4 below of:

(i) free cash low yields that have reached the lowest point in the past 15 years and offer no risk premiums over US10Y bond yields AND

(ii) extreme aggregated revenue growth for the semiconductor suppliers like Nvidia that are well above historic averages and the capex growth of the hyperscalers which are their main customers. While historic amounts of US$ revenue changes entirely aligned with the capex of the hyperscalers, the past 12 months have shown a leap to US$63 billion growth in revenue of the semiconductor suppliers relative to US$8.3 billion increases in capital expenditures. While it is entirely possible that the hyperscalers have re-prioritised capex, the flattering growth poses a risk that the elevated price multiples could cause a severe disappointment if the growth expectations are not met.

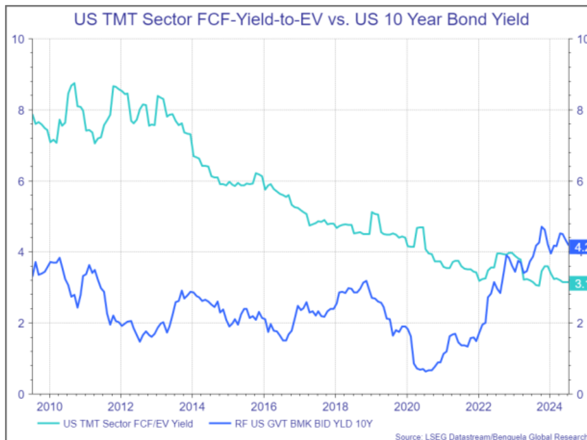


Figure 3

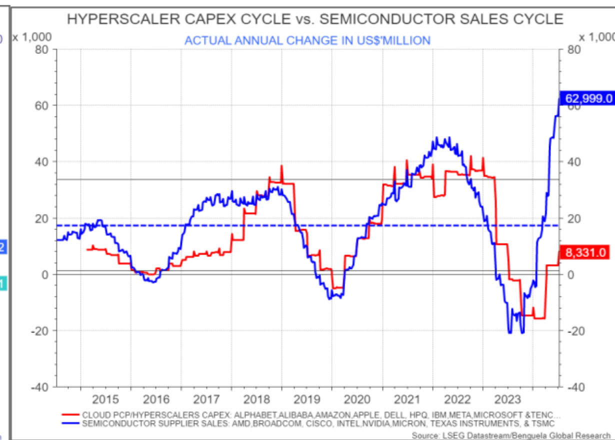


Figure 4

In our view, current valuation multiples in the Technology, Media, and Telecom (TMT) sector appear to suggest unsustainable growth expectations relative to company fundamentals, potentially signaling a bout of irrational exuberance. While innovation and technological advancements continue to fuel optimism, the steep multiple expansions often ignore the underlying earnings and cash flow realities necessary to support such valuations. Investors seem

to be pricing in perpetual growth at an unprecedented scale, which history has shown to be fraught with risk. This disconnect between market valuation and fundamental health raises concerns that the TMT sector may be experiencing an overextension, underscoring the need for a cautious, prudent investment approach to navigate any potential market corrections.

Portfolio Attribution Highlights

For the 2Q2024 BGEUF generated an active return of 1.2%. Stock selection contributed 0.95% while sector and geographic allocations added 0.26%.

Our implementation of the quality strategy continues to lag the heavily technology-sector-concentrated MSCI ACWI Quality ("ACWIQ") Index which delivered 3.4% outperformance over the MSCI ACWI ("benchmark"). We believe that the MSCI ACWI Quality ("ACWIQ") is highly vulnerable to a possible correction in the TMT sectors of global markets. At Benguela we manage our portfolios with modest sector and geographic active risk budgets resulting in, on average, allocation being a negligible contributor to our active performances long-term performance. The IT sector now accounts for 36.5% of the ACWIQ vs. 25.9% for the benchmark and 26.1% for our BGEUF. Our outperformance/underperformance are therefore primarily driven by stock selection.

Sector Allocation Review 2Q2024

At a sector level, our top contributors and detractors over the quarter were as follows:

Contributors: GICS Sector	Active Position	Allocation Effect	Detractors: GICS Sector	Active Position	Allocation Effect
Communication Services	O/W	0.14%	Industrials	U/W	0.02%
Consumer Staples	U/W	0.12%	Cash & Equivalents	O/W	-0.01%
Energy	U/W	0.09%	Health Care	O/W	-0.04%
Information Technology	O/W	0.06%	Materials	O/W	-0.11%
Financials	U/W	0.03%	Consumer Discretionary	O/W	-0.15%
Aggregate Contribution		0.44%	Aggregate Detraction		-0.29%

Notable Sector Allocation Contributors

- **Communications Services (O/W) – 2Q2024: +8.2% return for the sector vs. total benchmark return of +3.1%**
  The global communications sector experienced a robust second quarter in 2024, with significant advances in both wireless and wired communication technologies contributing to sector growth. This resulted in a positive allocation effect from the fund's overweight allocation to the sector. Despite global economic uncertainties, the sector showed resilience, driven by heightened consumer and enterprise demand for reliable and innovative communication solutions. Key drivers included ongoing 5G network deployments, increased demand for high-speed internet, and the rapid adoption of AI-driven communication tools. The average revenue growth for major players in the sector was approximately 7%, with net profits seeing an uptick of around 5% compared to the same quarter last year. Companies like AT&T, Verizon, and

China Mobile reported strong quarterly earnings, driven by subscriber growth and enhanced service offerings. The sector's aggregate EBITDA margin improved by 1.5%, reflecting operational efficiencies and cost management practices amidst the economic headwinds.

Tactical View: The global communications sector currently exhibits a valuation outlook marked by elevated trailing P/E multiples, standing at approximately 23.4x, reflecting significant market optimism around earnings growth which are slated to increase earnings by 25.4% over the next 12 months into 2025. The sector has been a beneficiary of the post-CoVid world where interactive media services has gained a foothold. Profitability indicators, such as Return on Equity (ROE), remain robust, with the sector averaging an ROE of around 15.7%, underscoring effective capital utilization and strong operational performance. While the Communications sector remains fundamentally sound, it may not be as attractive relative to sectors with lower valuations and higher growth potential. This comparative analysis points to a need for careful stock selection considerations before committing investments, given the dichotomy between strong profitability and potentially overstretched valuations. We would prefer Interactive Media and Advertising subsectors over the toll-based businesses like wireless/integrated telecommunications

- Consumer Staples (U/W) – 2Q2024: +0.08% vs. benchmark return +3.1%

  The global consumer staples sector was flat in the second quarter of 2024 relative to a positive performance of the benchmark, thus generating a positive allocation effect from the fund's underweight position. Fundamentally, the consumer staples sector exhibited moderate financial performance in 2Q2024, with average revenue growth of 3% and net profit growth of 2% year-over-year. Driven by consistent consumer demand for essential goods, the sector benefitted from diversified product portfolios and robust supply chain management. Nonetheless, economic uncertainties and inflationary pressures posed challenges. Major players such as Procter & Gamble, Nestlé, and Unilever reported stable earnings, with incremental gains in emerging markets. The sector's EBITDA margin remained steady, reflecting disciplined cost control and effective resource management amidst fluctuating raw material prices. Companies adapted through strategic pricing, cost efficiencies, and increased digital transformation efforts.

  Tactical View: After maintaining an underweight position in the sector for a while now, we believe that that global consumer staples sector is starting to look attractive as margins seem to have stabilised and valuations have pulled back.

- Energy (U/W) – 2Q2024: -0.5% vs. benchmark return +3.1%

  The global energy sector experienced significant volatility in the second quarter of 2024, influenced by geopolitical tensions, fluctuating commodity prices, and accelerated transitions to renewable energy. The 2Q2024 illustrated a bifurcation between challenges in the traditional fossil fuel segment and growth in the renewable energy domain. Crude oil prices remained volatile, oscillating between $70-$80 per barrel due to fluctuating supply-demand dynamics. For the quarter, brent crude improved by +1.3% (1Y: +18.1%) while the Indonesian energy coal benchmark rose by +12.1% in US$ even though it has logged a cumulative 35.7%

loss for the 12 months. Natural gas prices saw relative stability, with a slight upward trend driven by increased LNG demand in Asia and Europe.

While traditional fossil fuel companies faced pressures from both environmental regulations and market dynamics, renewable energy firms saw continued investment and adoption. Oil and gas revenue growth was modest, with an average of 1.5% year-over-year, hindered by fluctuating crude oil prices and regulatory constraints. Net profits remained under pressure, declining by an average of 0.5%, due to increased costs and declining investments in new exploration. Renewable energy companies reported strong revenue growth, averaging 10%, driven by increased capacity installations and government incentives. Renewable energy costs continued to decrease, making them more competitive with traditional energy sources. Net profits grew at 8%, supported by higher operational efficiencies and decreasing technology costs.

Tactical View: The oil and gas sector multiples are discounting a fair amount of downside correction in the oil market that in our view has been supported largely by the effects of geopolitics and OPEC discipline supply side management. Our preference, at this point in the cycle, is for downstream businesses with low oil input commodity hedge ratios that can benefit from a demand-driven slowdown in oil prices. Dividends may support the sector. Overall sector production growth would likely disappoint in the short-term as some businesses attempt to transition out of fossil fuels. At the moment listed renewables business revenues equate to roughly 5 – 10% of the listed oil and gas sector revenues – range affected by selling price volatility, reporting leads and lags.

Notable Sector Allocation Detractors

- **Consumer Discretionary (O/W) – 2Q2024: -1.4% vs. benchmark return +3.1%**

  In the second quarter of 2024, the global consumer discretionary sector sales showed significant resilience amid a decelerating of sales growth to 0.2% Q/Q and 6.1% Y/Y. The US carried the rest of the world with a +1.5% Q/Q sales growth bolstered by resilient US consumer spending and robust economic indicators. The global sector reported an overall market price decline of –2.6% for 2Q2024. Meanwhile, Europen sector posted an aggregated share price decline of -9.3% Q/Q as economic recovery continued at a slower pace amid ongoing geopolitical uncertainties. Asia-Pacific was under pressure with a share price return of -5.0% as the region battles the consumer spending malaise.

  Monetary policy could see some easing, with rate cuts likely across the Asia Pacific region in tandem with the US Fed/ECB's interest rate path. China continues to be one of the weak spots in the region with a -1.3% market price decline during 2Q2024. China's property woes have not yet abated which has had a knock-on effect on consumer confidence. Despite enhanced stimulus, property sales and house prices have been falling, revealing very low levels of confidence in the Chinese market. While there was a slight uptick in Chinese economic growth

expectations for 2024 thanks to robust manufacturing in Q1, the Q2 GDP figures disappointed at 4.7%, and the overall outlook for the rest of the year is still dismal relative to previous times. The EM sector returned 1.3% for the quarter and 7.0% for the 12-month period.

Tactical View: The consumer discretionary sector looks more attractive in emerging markets than in the developed markets. EM consumer staples are trading a forward multiple of 14.6x vs. 20.6x 10-year historic average. In contrast, the DM sector trades at 19.8x versus a 10-year average of 19x. Admittedly the DM sector has shown better RoEs of 30% in the last 10 years versus their EM peers at 20%. EM profitability was, in part, heavily hobbled by the effects of disproportionately higher interest rates, along with a lack of fiscal support by their governments during the CoVid-19 crisis and aftermath.

- Materials (O/W) – 2Q2024: -3.0% vs. benchmark return +3.1%

For the second quarter of 2024, the global materials sector declined by -3.0%. The metals and mining sub-sector returned +7.6% with general mining returning only +1.5% while the investable gold sector showed strong performance with a 10.3% return for the quarter bolstered by rise in the gold price stoked primarily by geopolitical tensions. Chemicals came under pressure, losing -3.9%. North America and Europe registered decreases of -1.0% and -1.5% respectively. Asia-Pacific had an even tougher 2Q2024 with a decline of -3.3%.

Tactical View: Materials is a difficult sector to call but we are more positive about gold stocks and diversifieds with adequate exposure to copper. We foresee copper being a key beneficiary in the battle for artificial intelligence as data centres seek to reduce latency by bringing centres closer to their customers while the electrification of automobiles and electric grids would bring in additional demand.

- Health Care (O/W) – 2Q2024: +0.44% vs. benchmark return +3.1%

The global healthcare sector continued to lag over the rest of the world index during the second quarter of 2024. Since the beginning of this calendar year, the healthcare sector has lagged the benchmark by almost 4% as the post-Covid readjustment continues in the sector. DM healthcare returned 0.6% for the quarter thereby outperforming their EM peers which declined by 4.3%. The star performer in the sector was Europe with a 6.2% return while US and Asia returned -1.1% and -3.9% respectively

Tactical View: The global healthcare system, hospitals, and practices have made some progress rebounding from the pandemic's many disruptions. On the other hand, the life sciences businesses have mixed trends of increasing pricing pressures, geopolitical environment, changes in US regulations, and the acceleration of Generative AI (GenAI) adoption to expedite drug discovery, cost reduction and revenue uplift.

While 2024 should see continuation of positive momentum, significant headwinds remain on the path to further improvement, growth and innovation. Our preference in the sector is for innovators in life sciences with growth portfolios that are bigger than legacy portfolios with patent cliff overhangs. Amongst the healthcare service providers, we prefer emerging market

regions with well-funded healthcare models and favourable demographics like aging population.

Stock Selection Review 2Q2024

Our stock level contributors/detractors for 2Q2024 were as follows:

Top 5 Stock Contributors	Active Position	Selection Effect	Top 5 Stock Detractors	Active Position	Selection Effect
Taiwan Semiconductor Manufac	O/W	0.54%	Qualys	O/W	-0.23%
Tencent Holdings	O/W	0.45%	United Energy Group	O/W	-0.30%
Apple Ord	O/W	0.35%	Kinsale Capital Group	O/W	-0.39%
Alphabet Class A	O/W	0.33%	Bristol Myers Squibb	O/W	-0.40%
K92 Mining	O/W	0.25%	NVIDIA	U/W	-0.53%
Aggregate Contribution		1.92%	Aggregate Detraction		-1.86%

Top 3 Selection Contributors

- Taiwan Semiconductor Manufacturing Company (TSMC): (O/W)

  For the past 3 months to June 2024 TSMC reported a 13.6% sales increase compared to 1Q2024 with preliminary sales reaching NT$673,510mn (+40% Y/Y) This beat the high end of their previous guidance of +6% Q/Q. The strong performance is attributed to strong AI and cloud demand, including KYEC, Alchip, and Aspeed. The company, which supplies tech giants like Apple (AAPL) and Nvidia (NVDA), has been a beneficiary of the artificial intelligence (AI) boom, as increased demand for chips to make AI products has offset lower demand for its other products, like semiconductors used in the production of cars.

  Our view: TSMC is a cyclical high-quality business that dominates the semiconductor foundry market. Future growth will be enhanced by the operationalization of the first US localization in the first half of 2025, TSMC made a historic announcement by announcing its intention to invest $12 billion in Phoenix, Arizona, to construct its first US semiconductor manufacturing facility. The corporation subsequently committed to constructing two more facilities in Phoenix Arizona for leading edge semiconductors, bringing its total investment to $60 billion. In the short term, returns and profitability would be depressed but we expect gradual improvements from 2026 onwards as the new production lines come onstream until 2030. TSMC looks fairly valued on a two-year forwards earnings basis and at current levels it is now in our profit-taking territory.

- Tencent: (O/W)

  The Chinese internet giant Tencent surprised analysts in the first quarter with higher revenues and greater profitability in its advertising and cloud computing/business services segment, which helped it outperform revenue and profit projections. The company attributed this to increased engagement across various features on WeChat and “ongoing enhancement” of Tencent’s “AI-powered advertising infrastructure. After experiencing its initial annual revenue decline in 2022, the Chinese internet colossus, which operates the world's largest messaging app WeChat, has been on a path to recovery. In order to concentrate on its core gaming division and other sectors such as advertising and cloud computing, it implemented a cost-cutting initiative that year and divested from non-core businesses. The company's endeavors have been rewarded by investors, as evidenced by the 27% increase in the share price so far this year.

  Our view: Tencent’s refocused strategy and execution may provide better profit-taking opportunities for our clients in the future. Having had such a strong rally in the short-term, we would be inclined to reduce our overweight in the stock.

- Apple: (O/W)

  Apple's (AAPL) shares surged during the quarter particularly boosted by the company's announcement of a $110 billion stock buyback program and the release of fiscal second-quarter earnings that exceeded expectations. In the second quarter of fiscal 2024, the company's revenue was $90.75 billion, which was marginally higher than analysts' expectations but a 4% decrease from the previous year. While diluted earnings per share (EPS) increased marginally, net income for the quarter decreased from $24.16 billion in the corresponding quarter of the prior

year to $23.64 billion in the current quarter. Both earnings figures exceeded analysts' expectations.

Our View: Apple is a high-quality business with a structural growth advantage that derives from brand strength, continuous innovation and an integrated ecosystem. However, the recent share price rally has put the stock within fair value territory where we believe that some meaningful profit taking is appropriate to tilt the stock towards underweight.

Top 3 Selection Dectractors

- **Nvidia (U/W)**
  Our underweight in Nvidia detracted the most from active performance in the past quarter as the stock continued to surge on very high expectations of demand growth for graphics processing units (GPUs) from the datacentre market. The landscape of data centres is shifting towards a more advanced compute infrastructure. This utilizes specialized hardware (Nvidia) to execute distinct tasks, resulting in a significant boost to the processing speed. Accelerated compute has found significant applications in Generative Artificial Intelligence (GenAI) and Large Language Models. Over time Nvidia will face competition from a number of companies. Competitors to Nvidia's flagship H100 GPU, Advanced Micro Devices and Intel have introduced new artificial intelligence chips that they claim are more affordable. Alphabet, the parent company of Google, and Amazon are among Nvidia's major customers that have created their own processors in an effort to lessen their dependency on Nvidia. To maintain its chip dominance, Nvidia must develop more rapidly than its competitors. According to the business, their next-generation Blackwell platform can "run real-time generative AI on trillion-parameter large language models at up to 25x less cost and energy consumption than its predecessor." This shows that Nvidia is obviously aiming to accomplish this.

  Our view: Nvidia is a cyclical high-quality business with some structural advantages like their CUDA parallel computing platform and application programming interface that allows software to use certain types of graphics processing units for accelerated general-purpose processing. Our challenge, however, is around the valuation placed by the market on the stock. At best Nvidia looks fairly valued even in the highest sell-side earnings growth scenario two years out. However, on a more realistic basis we see a valuation downside of almost 30% on more reasonable forecasts. We maintain an underweight position.

- **Bristol Myers Squib (O/W)**
  Bristol Myers-Squibb took another hard knock in the second quarter, declining 23% as the market was disappointed with continued pressure on the top line. The stock was negatively impacted by weaker-than-expected sales of key drugs, particularly a decline in Revlimid revenue as a result of increased generic competition. Additionally, there were regulatory hurdles and delays in the approval process for some promising new treatments in their pipeline, dampening investor optimism. Year to date, the share price has struggled due to

ongoing concerns about the company's ability to offset revenue losses from impending patent expirations. Market sentiment has also been affected by broader sector pressures, including pricing scrutiny and evolving healthcare policies, which have collectively weighed on BMY's market valuation.

Our view: We believe that BMY has pockets of excellence within its portfolio growth portfolio, however this is weighed down by the poor performance of the legacy portfolio. The company's quality has deteriorated to a point where its cheap valuation offers us very little solace for continued investment. In hindsight, it was our mistake to give management the benefit of doubt to turnaround the business through new drug launches especially after their 2019 acquisition of Celgene at a price tag of US$74 billion. The appointment of the new CEO (Chris Boerner) in 2023 has given us cold comfort as evidence of deterioration in the legacy portfolio continues. We are looking to exit this position during 3Q2024.

- Kinsale Capital (O/W)

  During the second quarter of 2024, Kinsale Capital Group's share price encountered disappointing performance, driven by several adverse factors. The stock suffered due to weaker-than-expected financial results, primarily from higher-than-anticipated claims and losses within their specialty insurance lines. Additionally, increased competition and pricing pressures in the specialty insurance market have squeezed profit margins. Year to date, the company's share price has been under pressure from broader industry challenges, including regulatory changes and rising reinsurance costs, which have strained operational efficiency. Investor sentiment was further dampened by concerns over the company's ability to sustain its growth trajectory amid these headwinds, leading to a notable decline in Kinsale Capital Group's market valuation.

  Our View: Kinsale is a high-quality E&S insurer with above average underwriting margins that have stood the test of time. The pullback in the share price has taken off some of the frothy market expectations but it has solid fundamentals for the long-term.

The Macroeconomic Landscape: Disinflation will support rate cuts

As of July 2024, the global economic outlook for the next twelve months to the second quarter of 2025 remains mixed, with various regions facing different challenges. The US economy is expected to continue its moderate growth trajectory, but uncertainties surrounding trade tensions and geopolitical issues could impact inflation outlook and interest rate decisions in the coming months. The recent US inflation data has been relatively stable, but anxieties about the timing of potential rate cuts persist.

The US inflation is expected to moderate as the Federal Reserve's previous interest rate hikes take effect. For June 2024 US CPI declined 0.1% from May, putting the 12-month rate at 3% compared to 3.3% in May. This is its lowest level in more than three years. Excluding volatile food

and energy costs, so-called core CPI increased 0.1% monthly and 3.3% from a year ago, compared with respective forecasts for 0.2% and 3.4%, according to the report from the Bureau of Labor Statistics. This cooling of inflation might allow for gradual rate cuts starting from September 2024 and it may gather hastened pace in early 2025 if economic growth shows signs of faltering. Federal Reserve Chair Jerome Powell recently stated in a congressional testimony that the central bank would closely monitor economic indicators to determine the appropriate path for interest rates. With the US economy continuing its moderate growth trajectory, uncertainties surrounding trade tensions and geopolitical issues could influence inflation and interest rate decisions in the coming months.

Europe is facing a similar situation, with the European Central Bank (ECB) potentially poised for further rate cuts. The annual inflation rate in the eurozone decreased to 2.5% in June 2024 after briefly rising to 2.6% in May. In June the ECB decided to cut the repo from 4.50% to 4.25% following the lead of the Swiss National Bank which was the first major bank to announce a rate cut in March, followed by Sweden's Riskbank in May and Bank of Canada in June after it had six consecutive policy direction pauses also cut trimmed its by 0.25% ECB staff now see headline inflation averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. For inflation excluding energy and food, staff project an average of 2.8% in 2024, 2.2% in 2025 and 2.0% in 2026. Economic growth is expected to pick up to 0.9% in 2024, 1.4% in 2025 and 1.6% in 2026. These forecasts have raised market optimism for further rate cuts in the Euro area over the coming months, but the ECB maintains that its rate path would be data-dependent and decided on a meeting-by-meeting basis. The Governing Council also announced that it will reduce the ECB's holdings of securities under the pandemic emergency purchase programme (PEPP) by €7.5 billion per month on average over the second half of the year.

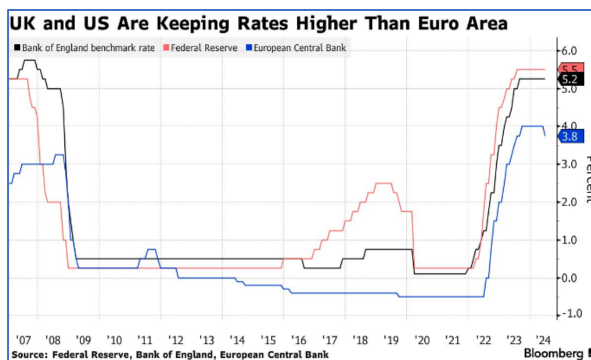


Figure 4

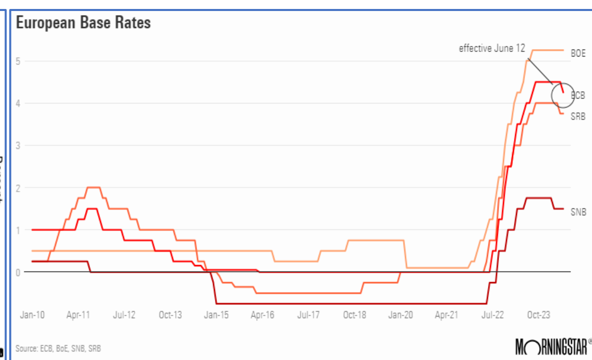


Figure 5

In Asia, particularly in China, the economic outlook is closely tied to the situation in the property sector, which has been experiencing challenges. The Chinese government has been implementing measures to stabilize the property market and support economic growth. However, uncertainties remain, and the impact on inflation and interest rates in the region is uncertain.

Trade tensions with the US could also affect China's economic growth trajectory and inflation outlook over the next twelve months.

Japan's wholesale inflation accelerated in June as the yen's decline pushed up the cost of raw material imports, keeping alive market expectations for a near-term interest rate hike by the central bank. The corporate goods price index (CGPI), which measures the price companies charge each other for their goods and services, rose 2.9% in June from a year earlier matching a median market forecast. While inflation is tracking comfortably above the JCB's 2% target, officials are keen to see Japan's price inflation being accompanied by sustainable domestic demand.

In Emerging Markets, inflation remains a concern as many countries struggle with high inflation rates. Central banks in these regions may be forced to implement rate cuts to stimulate economic growth and reduce inflation pressures.

Overall, the global economic outlook for the next twelve months will be heavily influenced by US economic growth trajectory, Chinese economic growth stabilization/stimulation and the general inflation trends and interest rate decisions in key regions around the world.

Portfolio Outlook & Closing Remarks

Benguela Global Fund Managers is confident in its ability to add significant value to client portfolios through its proprietary calibrated quality strategy in global markets. Empirical findings strongly support the efficacy of our quality strategy in delivering superior investment outcomes within global equities. Studies indicate that high-quality companies—those with strong balance sheets, stable earnings, and low debt—consistently outperform their lower-quality counterparts over the long term. These companies tend to exhibit lower volatility and higher resilience during market downturns, contributing to more stable investment returns.

Our strategy is meticulously designed to minimize various risks, including business risk, financial risk, ESG risk, growth risk, and execution risk in investee companies. Additionally, our focus on ESG criteria further enhances risk management, as companies with strong ESG practices tend to face fewer regulatory hurdles, lower operational risks, and benefit from a positive public perception. By focusing on these key risk factors and maintaining strict discipline in selecting attractively priced stocks in global markets, we believe that our quality strategy can deliver superior investment outcomes for our clients. Our adherence to strict valuation metrics, we avoid overpaying for growth and protect our portfolios from market exuberance. We believe that our meticulous focus on minimizing various forms of risk, coupled with our valuation discipline, bolsters our confidence in the ability of Benguela Global Fund Managers to continue adding value to client portfolios in an ever-evolving global market landscape.

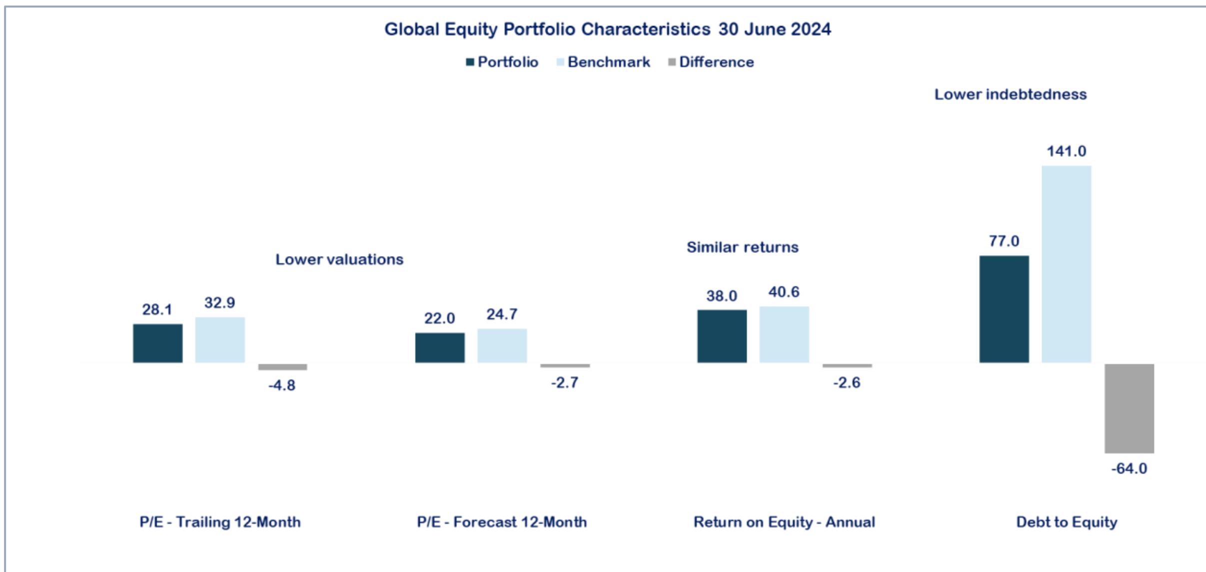


Figure 6 - Source: LSEG Workspace Portfolio Analytics

APPENDIX A: SECTOR PERFORMANCE AND CALENDARISED FUNDAMENTALS

	% Change 1M	% Change 3M	% Change YTD	% Change 1Y
MSCI AC WORLD U$	1.40	3.07	11.58	21.47
MSCI ACWI ENERGY $	-1.03	-0.53	9.04	19.51
MSCI ACWI MATERIALS $	-4.51	-2.98	-1.12	7.74
MSCI ACWI INDUSTRIALS $	-2.02	-1.60	7.41	16.98
MSCI ACWI CONS DISCR $	1.35	-1.34	4.52	10.45
MSCI ACWI CONS STAPLES $	-0.83	0.08	2.83	2.73
MSCI ACWI HEALTH CARE $	2.54	0.44	7.71	12.84
MSCI ACWI FINANCIALS $	-0.44	0.41	9.84	25.09
MSCI ACWI IT $	5.64	11.58	24.94	40.23
MSCI ACWI COMMUNICATION SVS $	2.78	8.16	20.56	32.64
MSCI ACWI UTILITIES $	-3.54	3.90	5.61	8.37

Source: LSEG Datastream/Benguela Global Research

Figure 7

		EPS % Growth			Valuation Multiples	
	FY1: 2024	FY2: 2025	FY3: 2026	P/E FY1: 2024	P/E FY2: 2025	P/E FY3: 2026
Industrials	8.89	12.54	12.14	20.21	17.96	16.00
Consumer Discretionary	11.66	14.22	13.61	19.74	17.28	15.21
Consumer Staples	5.57	8.77	8.28	19.42	17.85	16.54
Health Care	8.05	17.87	11.81	20.65	17.51	15.66
Financials	8.57	9.14	10.11	12.29	11.26	10.24
Information Technology	22.54	23.13	15.14	32.54	26.42	22.95
Communication Services	21.92	13.28	13.03	20.02	17.67	15.64
Utilities	9.95	6.39	5.97	14.77	13.84	13.08
Energy	-7.82	7.92	3.96	11.04	10.20	9.81
Materials	6.50	17.12	7.81	16.45	14.04	13.00
Real Estate	-13.65	1.54	7.50	14.50	14.28	13.29
World	9.88	13.50	11.12	19.21	16.92	15.23

Source: LSEG Datastream/Benguela Global Research

Figure 8

APPENDIX B: GLOBAL EM SECTOR 12 MONTH ROLLED FUNDAMENTALS

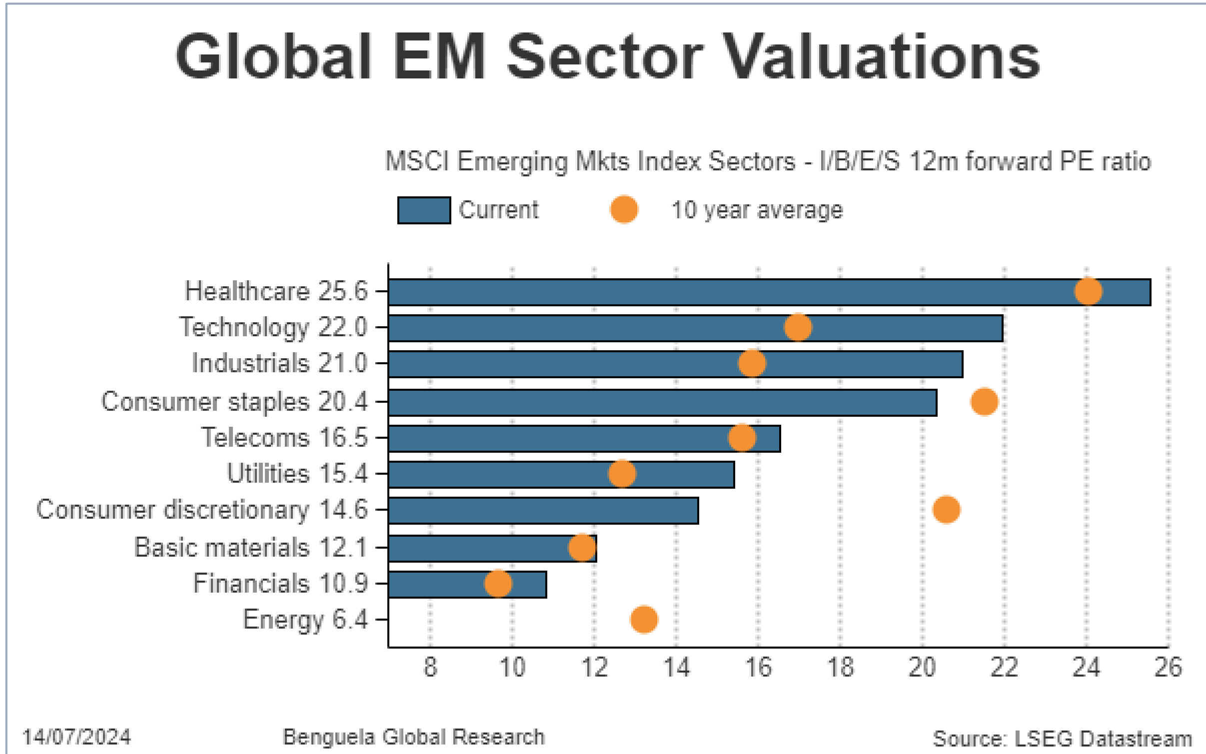


Figure 9

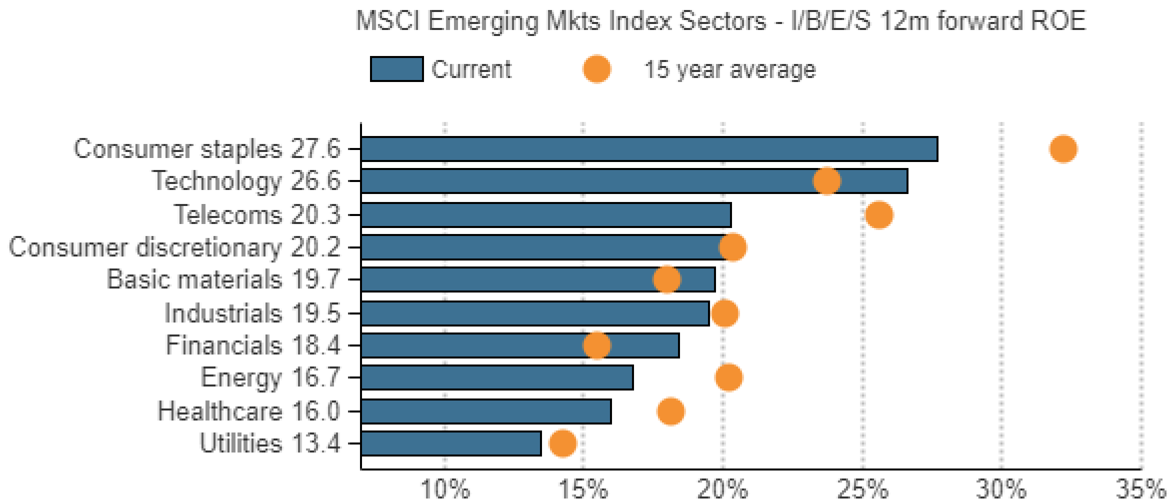


Figure 10

APPENDIX C: GLOBAL DM SECTOR 12 MONTH ROLLED FUNDAMENTALS

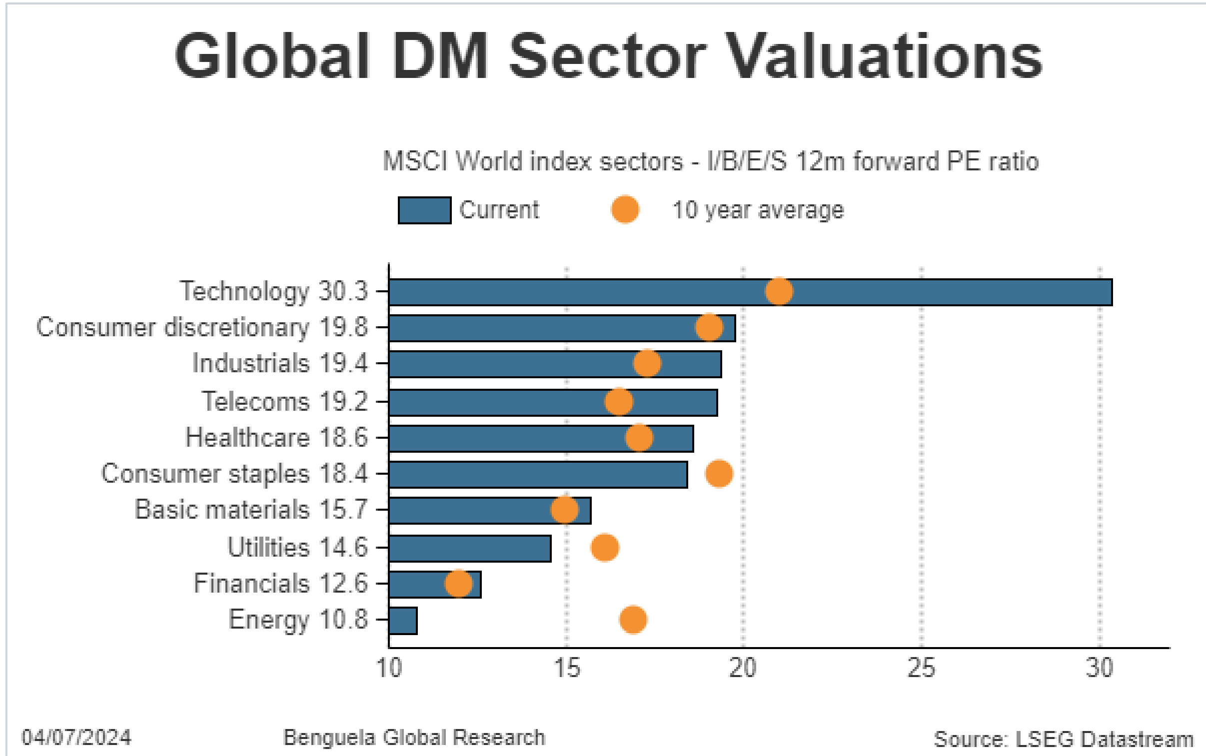


Figure 11

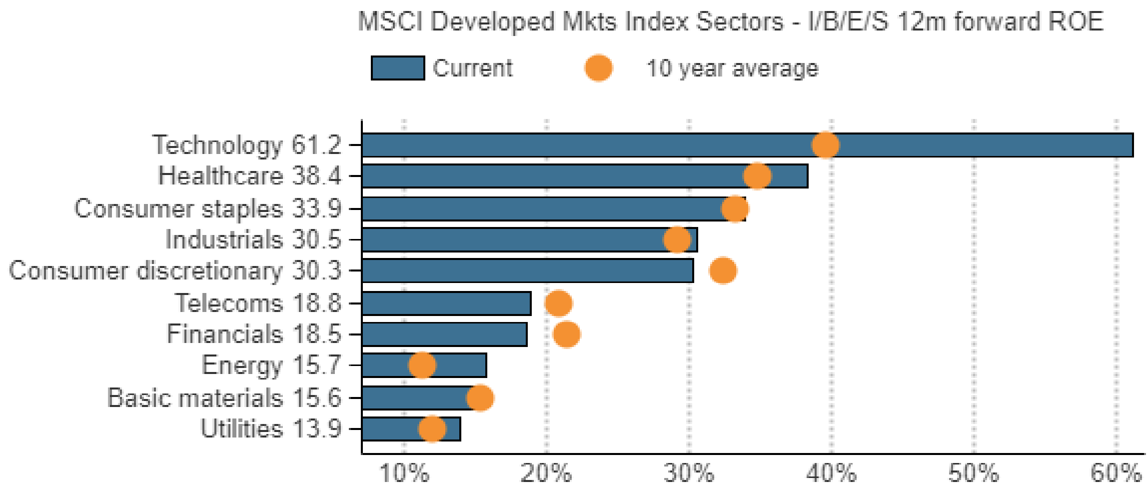


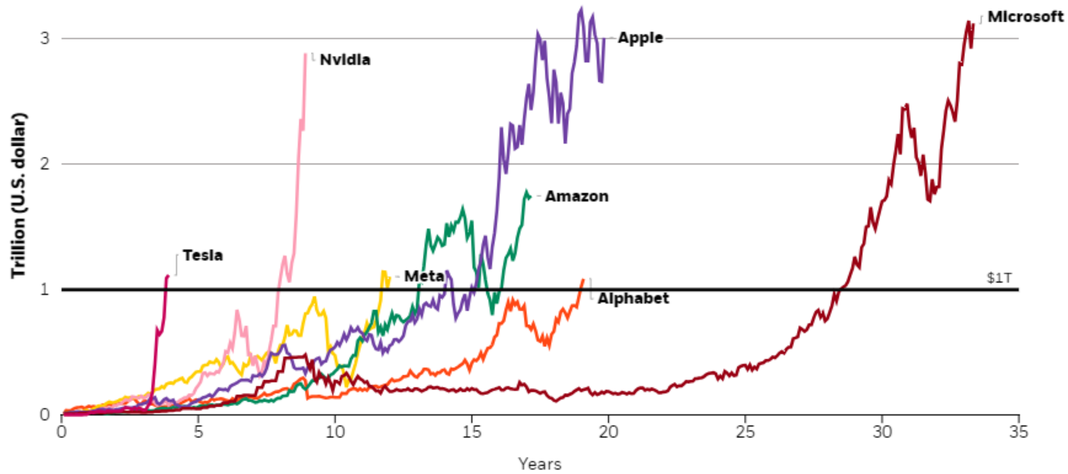
Figure 12

BENGUELA GLOBAL
FUND MANAGERS

APPENDIX D: CONTEXTUALISATION OF WHERE WE ARE IN THE TMT SECTOR

Figure 13

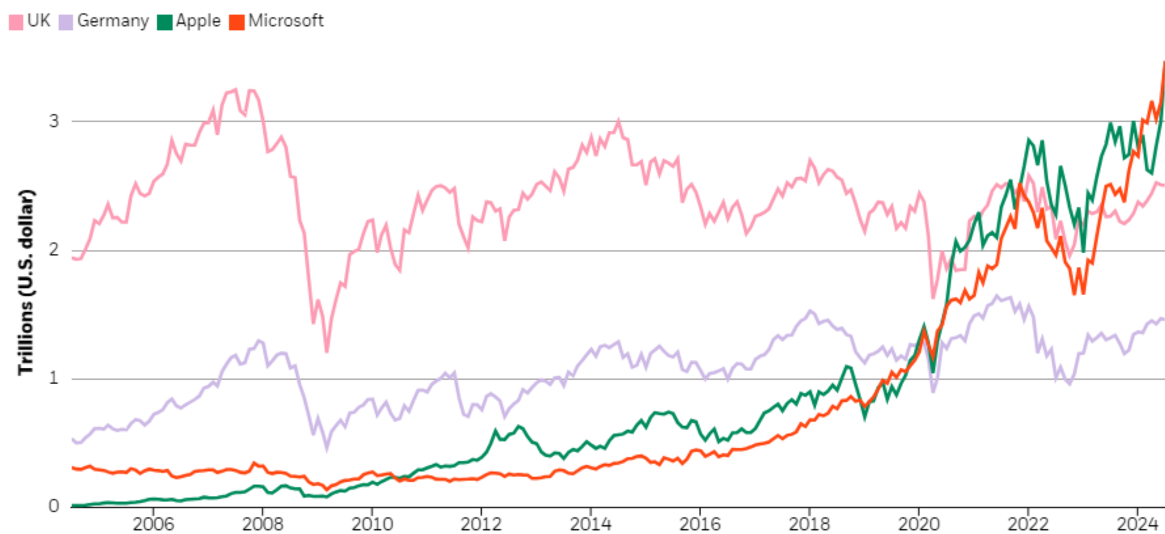
Years to go from $10 billion to current market capitalization



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even estimate – of future performance. Past performance is not a reliable indicator of future results. Source: BlackRock Investment Institute, with data from Bloomberg, July 2024. Notes: The chart shows how long it took for the "magnificent seven" stocks to go from $10 billion to its current market capitalization.

Figure 14

Market capitalization of select U.S. companies and stock indexes, 2005-24



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise – or even estimate – of future performance. It is not possible to invest directly in an index. Index performance does not account for fees. Source: BlackRock Investment Institute, with data from LSEG Datastream, July 2024. Notes: The chart shows the market capitalization of Apple, Microsoft and the UK and German stock markets. Index proxies used for UK and German equity markets: MSCI UK and MSCI Germany.