LOWES
INVESTMENT MANAGEMENT

# International Equity Income

Quarterly Report to 30 September 2024

## Objective

To provide a rising level of income coupled with capital growth through investment into a geographically diverse blend of equity income funds.

## Strategy

It will invest in equity income funds which are investing in overseas markets and companies. These are funds which look to invest in companies that have a history of paying regular dividends to shareholders and may invest on a global basis or may be region specific, such as Europe or Asia Pacific ex Japan.

## Market Commentary


From an economic perspective concern clearly shifted from inflation to economic growth. For now, inflation appears to be behaving itself. In the euro area the rate has fallen below 2%. In the UK, consumer price inflation has now held steady at 2.2% for two consecutive months. In the US, meanwhile, we have also seen a move down towards target, falling most recently to 2.5%. Whilst there are still some components of the inflation basket which remain sticky, such as housing rents, concerns are dissipating.

Narrative is now more closely focussed on economic growth and how central banks protect it. Whilst the most recent forecast from the Organisation for Economic Co-operation and Development (OECD) remains relatively positive, investors are keen to understand how western central banks will navigate from the current higher interest rate environment to one more commensurate with lower inflation. There was concern that the US Federal Reserve (Fed) had left it too long after a weak August jobs report. This triggered them into action, with their first move being a 0.5% reduction. The market also priced in a number of subsequent cuts in quick fashion. It has not been uncommon for the market to get ahead if itself, a point in case being the fourth quarter of last year. It may have done so again this time too, following a stronger than expected employment report for September which appears to have reinforced the soft landing thesis.

The Fed, European Central Bank (ECB) and Bank of England are all expected to continue their path of cutting moving forward. The exception to the rule is the Bank of Japan who appear to be in hiking mode. They caught the market off guard with their most recent hike at the end of July, which sent equity markets into a downward spiral. Whilst the hike was only a small 0.15%, it was enough to unsettle investors.

With US interest rates moving one way and Japanese in the other, we saw what appears to be a partial unwinding of the carry trade in early August, the carry trade being where investors borrow in a lower yielding currency, i.e. the Japanese yen, to invest in higher yielding currencies/assets. No one is quite sure exactly how large the positioning in the carry trade is, with some wide ranging estimates. The general consensus is that positions in the carry trade still exist and therefore a keen eye will likely be kept on the Bank of Japan.

The weakness in markets was met this time with investors keen to get back into the market at lower valuations. Liquidity is certainly abundant, with the Investment Company Institute reporting $6.46 trillion in money market funds in the US. The question is, is this money likely to make its way into investment markets or stay parked where it is. Plenty to monitor as we enter the final quarter of 2024.

## Performance

During the quarter the portfolio posted a return of 2.51%, which was ahead of the IA Global Equity Income sector average return of 2.39%.

The strongest performing fund within the portfolio during the quarter was Schroder Global Equity Income.  Another strong performer was the BNY Mellon Global Income fund.  These two funds have very different regional allocations, with performance being very much driven by stock selection within both of the funds.

Also performing strongly was the BNY Mellon Asian Income fund.  The latter posted a strong recovery from the sell off in early August.  Unlike many other Asian income funds, performance was not driven by the release of the Chinese stimulus at the end of September.  Indeed, the fund has only a very small exposure to Chinese stocks.

Another fund to outperform the above sector average was the M&G Global Dividend fund.  Weaker performances, with returns below the above sector average came from funds such as JP Morgan Global Equity Income and Lazard Global Equity Income.

*Source: FE Analytics, Bid-Bid, Total Return*

## Portfolio Activity and Positioning

This managed investment portfolio was only launched at the end of June.  There were therefore no changes made to the portfolio during the last 3 months.  There are a number of potential changes being considered for this portfolio.  Firstly, we are considering the addition of a dedicated UK equity income fund.  The UK has a strong divided paying culture and funds within this area currently carry attractive yields.  Furthermore, relative to other developed market countries and regions, UK equities trade at a lower valuation, as well as against their own history.

A further fund which is under review is abrdn Europe ex UK Income Equity.  Here we have seen the fund manager leave and move to a different investment company.  The alternative manager is an internal appointment, however our concern here is that their background is predominantly working in UK equities, where they are currently Investment Director in the UK Equity Team.

At the time of writing we have also been made aware of a forthcoming fund manager change within the CT Global Equity Income fund.  This will require further investigation to understanding in terms of the implications this could have.  Whilst the incoming lead manager is someone who currently works on this fund, the loss of the outgoing manager will need to be assessed.