SARASIN

GLOBAL HIGHER DIVIDEND

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ECONOMIC REVIEW

It was a challenging quarter for global equities. The US market experienced its worst quarterly performance since the Covid-19 pandemic. There were significant shifts in sentiment amid US tariffs and heightened stagflation fears – growth stocks such as the 'Magnificent 7' underperformed significantly. Inflation concerns resurfaced in the US and the Federal Reserve held interest rates steady, anticipating a slower pace of rate cuts.

In contrast, European markets delivered strong returns, achieving the largest quarterly outperformance relative to the US S&P 500 index in a decade. This was largely driven by a major fiscal policy pivot on the continent, particularly in Germany, where proposals to loosen the 'debt brake' in favour of increased defence and infrastructure spending lifted investor sentiment.

FUND REVIEW

Our holding in food retailer Ahold Delhaize was the largest positive contributor to the fund's performance. The company's share price rose on the announcement of a share buyback programme, as well as on its cautiously optimistic 2025 outlook. It is a very defensive company and will generally be expected to outperform at times of increased market stress and volatility.

The share price of industrial gas supplier Air Liquide rose when the firm raised its profit forecasts, after reporting higher-than-expected sales in 2024.

In contrast, our holding in technology company Alphabet was the largest detractor from performance. The firm's share price fell, though it has performed very well on a 12-month basis. Investors took profits and adjusted expectations as the company continues to spend on AI infrastructure, with the market concerned about the return on this investment.

Microsoft's share price also fell due to concerns over elevated capital spending and slow growth of its core cloud business. Although earnings beat expectations, investors remained cautious due to fears of broader trade tensions.

FUND TRANSACTIONS

We took advantage of Microsoft's weak share price to increase our holding.

We switched out of our position in investment bank J.P. Morgan in favour of Morgan Stanley. This was a view on valuation; J.P. Morgan looked expensive and the dividend yield had reduced. Morgan Stanley, another investment bank, looked more compelling on a relative valuation basis and had a better dividend yield.

We initiated a position in biopharmaceutical company Amgen. The firm has shown consistent financial performance, has an innovative drug pipeline and focuses on biotechnology advancements. The company also has a strong balance sheet and a high dividend yield.

We took some profits in CME Group, the largest derivatives marketplace in the world, after it reported strong results. The firm has benefited from increased activity amid significant macroeconomic volatility.

We sold our holding in Terna, which manages Italy's electricity transmission grid, due to increasing concerns over rising capital expenditure to fund renewable infrastructure. This is increasing the company's borrowings and may result in an unexpected issue of new shares to raise funds.

OUTLOOK

Global corporate earnings growth appears to be slowing. In Q1, equity markets in Europe and China benefitted from the uncertainty caused by Donald Trump's trade policies, with investors looking to diversify at the expense of US markets. Core US inflation remains sticky, and with business and consumer confidence weakening, Make America Great Again policies could lead the US into a recession later in 2025. Global trade relations and regulations are likely to come under greater scrutiny.

We are keeping a close eye on a White House that is acting more aggressively and decisively than during Trump's first term. We will continue to focus on high-quality companies with sensible balance sheets that are regular dividend payers, which should give some downside protection in volatile markets.

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