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Commentary: NCM Core Global and NCM Core International

On February 12, 2024, Portfolio Manager Phil D'Iorio, MBA, CFA, reviewed 2023 global market performance, shared his outlook for 2024, and highlighted a number of compelling holdings in the funds.

TRANSCRIPT:

Good afternoon. It's February 12th, 2024. My name is Phil D'Iorio and I'm the lead manager for the NCM Core Global and International mandates. Today, I'm going to give you an update on the funds. Let's start with a look back at 2023.

At the beginning of the year, a recession for the global economy was the consensus call. But as we all know now, that was avoided. And because of that, the markets grinded higher throughout the year. And there were some very attractive returns generated across all of the global developed markets, as you can see here. The S&P 500 in the US was up about 26% on a total return basis. In Japan, the Topix was up even more, a little over 28%. And over in Europe, where the economy there flirted with a recession and the stock market was up almost 17% for the Euro Stoxx 600 index.

You know, just looking around the major economies, the US was probably the biggest surprise of them all, was very resilient last year. Japan had pretty modest growth, but it was trending in the right direction. And really the weakness came from Europe and China where there was quite a few weak data points and concerns about those economies. But the way I'm looking at China and Europe is that they're in a bottoming process here. And at some point, we should see the economies over there inflect higher.

So let's talk about this year. You know, given what happened last calendar year and what's been happening with inflation, I have this view that the likelihood of a soft landing is getting higher. And inflation is core to that thesis, as you can see on the slides here, which are inflation on a headline basis, but also a core inflation reading for over 50 countries around the world. You can see that inflation has fallen a lot in the last several months and we're getting closer to where inflation was pre-COVID. And so what that does is it sets up the backdrop for central banks around the world to be able to cut interest rates at some point this year. And so because of that, we think that there is a high likelihood of a soft landing and that is how we've positioned the portfolios for Core Global and Core International.

So let's talk a bit about each of those starting with Core Global. About a year ago, Q1 2023 started positioning the portfolio to be a little bit more cyclical, given that the markets had fallen a lot and a lot was starting to get priced in. So we started adding a little bit of cyclicality to the portfolio, we were doing it gradually. And as each quarter went on, we started to see that the economy as a whole globally was somewhat resilient with the US really helping a lot.

And so we just started adding a little bit more cyclicality to the portfolio. And, you know, by the end of the year we could see that inflation was falling a lot and the economies as a whole were still doing okay. And so our performance started to improve as a result of that. Technology was a big part of that. That's an area that had been beaten up very badly in 2022. So that's where we found a lot of opportunities. And some of the stocks we own there have done well. Accenture, Alphabet, Applied Materials, Microsoft and Meta, Visa, and then finally, Amazon, which was more of a recent addition to the portfolio.

But it's not really all about tech. We do own a lot of names in other sectors that have done well. Costco, Deckers Outdoor, Eaton Corp, Linde, Novo Nordisk, Parker-Hannifin and RELX which was formerly known as Reed Elsevier, just to name some other stocks that have done quite well in the portfolio. And one thing to point out is, is just because we went a little bit more cyclical in the portfolio, we did not compromise the quality of the portfolio with the names that we own are very high quality in nature.

So moving on to Core International, it's a lot of the same type of things going on as Core Global. Just that the names are different. So we did sort of this positioning about a year ago to make it more cyclical given our view that we saw the possibility of a soft landing unfolding. And so we are adding to technology and industrials and, like the Core Global, technology has done well for us on the international side, Accenture, ASML, Dassault Systèmes, Capgemini and Taiwan Semiconductor to name a few of our stocks that have done well.

And then outside of technology, we've also had some nice contribute options from Air Liquide, Ferguson, Linde, Novo Nordisk, Partners Group, RELX, Safran and Schneider Electric to touch on some of the ones that did that did really well for us again here. We did go more cyclical, but without compromising the quality of the portfolio. And so what I thought I would do next is touch upon some of the themes and some of the trends that we see going on around the world and some of the stocks that were playing these these themes through.

And I would say that a lot of these trends are very long winded in nature, and we expect them to go on for many, many years. So starting with decarbonization, we all know that, you know, around the world there's a lot of initiatives to try and reduce pollution and just become more environmentally friendly as a planet. And, you know, decarbonization is a big theme.

And two of the companies that we own, Air Liquide and Linde, both of which are owned in Core Global and Core International, these companies are known as industrial gas companies. They're a very large part of almost every sector in the economy providing different gasses that go into the manufacturing process. But the real exciting part for these businesses is that they're developing green hydrogen technology.

It's still quite a ways out from becoming commercial in nature, but it does have a zero carbon footprint. And there's some really big numbers being talked about in terms of what green hydrogen could amount to. Some have talked about it being over $1 trillion in potential value. So moving on, electrification, energy transition, these are themes that I'm sure everyone has been hearing about.

And there's a company that we own called Eaton Corp, which is really well positioned to benefit from these trends. You know, electrification, hear a lot about electric vehicles and then, you know, smart grid technology, renewables on the energy transition side. And then a lot of the data centers that are being built out for cloud and AI, you know, they need cooling systems, which is part of what Eaton provides.

Next up, going to talk about health care, you know, innovation, aging, demographics. These are themes that we really like. And again, very long winded in nature. One of the companies we own in the health care sector is Novo Nordisk, which has been around for a very long time, very well known for their diabetes treatments. But more recently there has been a very big breakthrough in weight loss drugs.

And there's really two companies at the forefront of this. Novo Nordisk being one and Eli Lilly being the other. We see this as a very large market down the road with Novo very well positioned to benefit from that. And then we also have a company called Thermo Fisher, which we own in the Global Fund, which is basically a picks and shovels provider to the pharmaceutical and the biotech industry.

You know, it's it's they're at the forefront and it'll help as companies bring new drugs to market, whether it be weight loss drugs or Alzheimer's drugs and all the drugs that are in the pipeline being developed. Moving on, you know, cloud computing, A.I., that's sort of in the news almost on a daily basis. And, you know, we've we've always liked technology.

And now there's, I guess, another reason to own it, which is A.I.. And so we've got a lot of companies in the portfolio that will benefit from A.I. and from the cloud. And these are mostly very familiar names to everyone. Microsoft, Amazon and Google, Meta Platforms, and then ASML, which is a semiconductor chip company over in Europe. So, yeah, this is another sector that we continue to like very, very much for the long run.

So if I could just wrap up my thoughts for today. You know, continue to believe that we're likely headed for a soft landing for the global economy. And we've positioned our portfolio to take advantage of this. And, you know, although we have increased the cyclicality of the portfolio, you know, the core thesis for these two funds is still to be invested in high quality compounders. And what we mean by that are companies that have very high returns on invested capital that generate a lot of cash and have strong balance sheets.

Thank you for your time.

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