Monthly Commentary: December 2024

US Focus Fund

- High-conviction portfolio of 25-45 outstanding companies selected from around 4,000 US stocks
- Team identify tried and tested, high-quality businesses that remain underappreciated despite a strong competitive advantage
- Long-term time horizon, with team taking a five-year view when making investment

Manager
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Date
11/12/24

Capital is at risk. Please read full risk warning at the end of this document.

The risks and opportunities for markets after the US election dominated investors' attention in November, with Donald Trump's decisive victory sending stocks surging. The S&P 500 (GBP) rose 7% during the month and this was largely led by more cyclical stocks, with the S&P 500 High Beta Index up 8.7%. The artificial intelligence-fuelled 'Magnificent 7' stocks outperformed too, rising 10.6% in aggregate. Our fund also outperformed the broad index, with a 7.2% return. Top performers for the month included **Copart**, **Watsco** and **LandBridge**. Leading detractors were **CDW Corp**, **Lockheed Martin** and **Nexstar**.

The market rallied partly in response to potential business-friendly Trump policies, and partly due to the prolonged election season coming to a definitive conclusion. The election result has the potential to impact many areas of the US economy, including personal, corporate and inheritance taxes; trade and tariffs; government spending; immigration; and energy policy. However, it is too soon to determine exactly which policies will ultimately be enacted and, importantly, how these policies will impact corporate profits and the business cycle. The knee-jerk reaction is to assume election results are the primary driver for capital markets. However, this is not necessarily true, as history shows markets have not favoured one party over the other. Markets react to certainty and uncertainty, and the health of the economy. After election results are announced, stocks tend to do well because the outcome clarifies some of the questions that have been swirling around in the previous months.

That is not to say the political backdrop is not important when making investment decisions. However, we are careful not to make assumptions, as politics and markets do not always intersect as envisioned. For instance, one might expect oil and gas companies to struggle in the face of tougher regulation under a Democrat presidency. Yet, this assumption is not reflected in how the US energy sector fared over the past two presidential terms. Energy was the worst-performing sector during Trump's first term, yet clean energy stocks soared. And energy outpaced even the tech sector under Joe Biden, but clean energy stocks lost half their value. Similarly, trade policies do not always have the effect we may expect. By way of illustration, will Apple suffer if higher tariffs are imposed on China, where many of its products are made? Not necessarily. Despite escalating tensions between Washington and Beijing, Apple enjoyed spectacular growth during Trump's first term in the Oval Office – as did its Big Tech peers.

We will continue to evaluate shifts in government policy and other factors that may have an impact on the companies we own. While we may see short-term market volatility, we believe tried-and-tested investment principles still apply – remain focused, resist emotional decision-making and stay invested to take advantage of compounding over the long term.

Data source: Boston Financial Management and Morningstar

Risk Warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. The fund will be exposed to stock markets and market conditions can change rapidly. Prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The fund invests in other currencies. Changes in exchange rates will therefore affect the value of your investment. The fund invests mainly in North America therefore investments will be vulnerable to sentiment in that market which may strongly affect the value of the fund. In certain market conditions some assets may be less predicatable than usual. This may make it harder to sell at a desired price and/or in a timely manner. In extreme market conditions redemptions In the underlying funds or the Fund itself may be deferred or suspended. All or part of the fees and expenses may be charged to the capital of the fund rather than being deducted from income. Future capital growth may be constrained as a result of this. Dividends paid by companies are not guaranteed and can be cancelled, which may impact the fund's ability to deliver an income to investors.

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Copies of the Prospectus and Key Investor Information Documents are available from **www.ifslfunds.com** or can be requested as a paper copy by calling 0808 178 9321 or writing to IFSL at the registered office above.

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