



NCM Core Global/Core International

Equity Strategies

NCM Monthly Commentary for October 2024



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Cumberland Investment Counsel Inc., affiliate of NCM Asset Management Ltd.

Q3 2024 Review

After delivering attractive returns during the first half of 2024, global equity markets continued their upward climb during the third quarter. For the first 9 months of 2024, the S&P was up 20.8%. This marks the strongest first 9-month performance in any year since 1997. The key factors that drove markets higher during Q3 included strong corporate earnings, interest rate cuts from central banks around the world, and reduced fears about a global economic recession. Stock market returns in the quarter were positive across most of the major developed market regions as shown in Chart 1 below.

CHART 1

Index	Geog. Region	Currency	Price change	Total return with dividends
MSCI World	Global	US\$	6.0%	6.5%
S&P 500	US	US\$	5.5%	5.9%
Stoxx Europe 600	Europe	Euro	2.2%	2.7%
Tokyo Stock Price Index	Japan	Yen	-5.8%	-5.0%

The weakness in Japanese equities was partially driven by the strengthening of the Japanese Yen. The concern is that the strength in the Yen will weaken the competitive position of Japan's exporters and undermine their earnings. While it is not surprising to see this type of knee-jerk reaction in the short-term, we do not believe that a gradual strengthening of the Yen will derail the multi-year uptrend in Japan's equity markets.

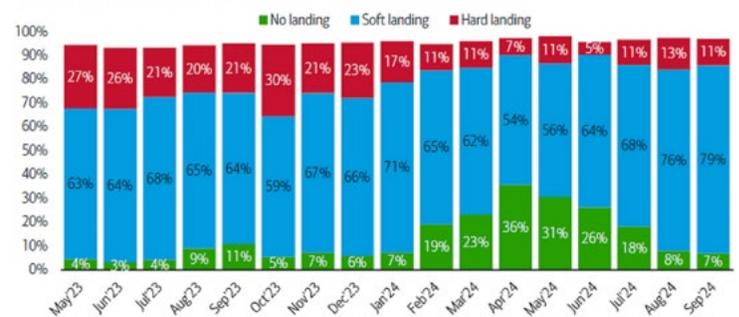
While the overall strength in global equity markets can be attributed to many factors, the increasing likelihood of an economic soft landing is one of the key driving forces. For the last 18 months, there has been an ongoing debate as to whether the global economy can achieve a soft landing or if

it is headed for a hard landing (i.e. a recession). We believe that the beginning of the interest rate cutting cycle has served as an important catalyst to improve investor sentiment. It has also helped to reduce fears about a recession. This is especially the case in the United States where the U.S. Federal Reserve (The Fed) recently began its rate cutting cycle with a 50-basis point cut. In our view, this larger than expected rate cut has provided increased comfort to investors that the Fed is attentive to the risks to both sides of its dual mandate of maximizing employment and keeping inflation low. The improved investor sentiment was reflected in the latest Bank of America (B of A) Global Fund Manager Survey, which showed that a soft landing for the U.S. economy is the overwhelming consensus as seen in Chart 2 below.

CHART 2

Exhibit 1: A Soft Landing the Overwhelming Consensus

Chart 5: 79% say "soft landing," 11% "hard landing," 7% "no landing"
What is the most likely outcome for the global economy in the next 12 months?



Source: BofA Global Fund Manager Survey

In the latest B of A survey, 79% of Fund Managers said that a soft landing is the most likely outcome for the global economy in the next 12 months. 79% is the highest percentage of managers expecting a soft landing in the last 17 months in which the survey was conducted. From our vantage point, we are seeing a number of signs that give us confidence in our soft-landing view. First and foremost, the U.S. and

the global economy appear to be in decent shape. Second, the S&P 500 has recently hit a new all-time high and the stock market's strength has broadened out to areas beyond the Magnificent Seven. Third, bond market signals are not showing signs of stress that are typically associated with a forthcoming recession.

In terms of the global economy, we believe conditions look steady across most of the major economic regions with China as the notable exception. During his most recent press conference, Fed Chairman Jerome Powell said that the U.S. economy is growing at a solid pace and that inflation is coming down. He also said that GDP rose at an annual rate of 2.2% in the first half of 2024, and recent data points to a similar rate of growth for the third quarter of 2024. So, the U.S. economy seems to be plodding along. In Europe, the economy is growing modestly and is expected to improve significantly in 2025. Real GDP growth for Europe is expected to be +0.8% in 2024 and improve to +1.4% in 2025. Most of the economies in the Eurozone are experiencing growth while Germany is a notable exception. High energy costs continue to cause significant damage to German's energy-intensive industrial economy and weakness in China has also been a headwind to this export-oriented behemoth. Economic growth in Japan continues to be steady and is expected to improve in 2025. More importantly, Japan's economy is undergoing a significant transformation with the end of deflation, the return of steady growth, and significantly improved corporate governance. These factors should position the country well in the years ahead. Meanwhile, China's economy continues to struggle in the face of sluggish GDP performance, sagging consumer confidence, and a collapse in property prices. Given these negative forces, the country recently announced a series of stimulus measures. These stimulus measures include plans to lower borrowing costs, to inject more funds into the economy, and to ease the mortgage repayment burden for households. The recent stimulus also included a planned 50 basis point cut to bank reserve requirement ratios. While it will take some time to see if these measures are successful in stimulating China's economy, at the very least we believe it will prevent the economic situation from getting worse.

For the better part of the last 2 years, a handful of mega-cap Technology stocks have been the driving force behind the gains in the stock market. This market concentration phenomenon has been a concern for investors especially since the valuations for many of these mega-cap Technology stocks have increased significantly. However, an interesting development occurred during the third quarter of this year. For the first time in almost 2 years, the 10 largest stocks in the S&P 500 (which includes the Magnificent Seven) have underperformed the rest of the index. We find this very comforting because the S&P 500 has been able to make

new all-time highs without the help of the 10 largest stocks in the S&P 500. This broadening out of market performance within the S&P 500 is illustrated in Chart 3 below.

CHART 3

Exhibit 2: S&P 500 Ex-Ten Largest Stocks on Pace for First Quarterly Outperformance in Nearly Two Years

S&P 500 Detailed Price Performance



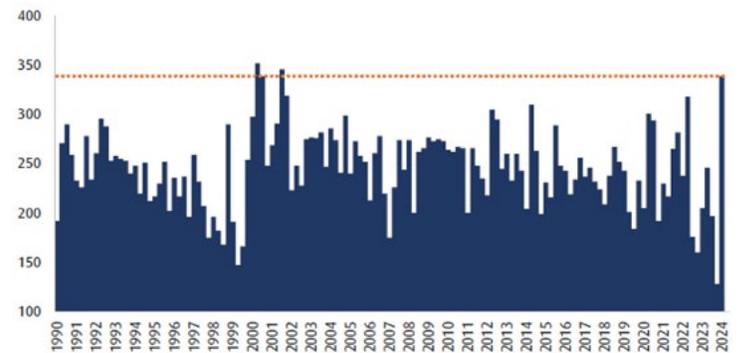
Source: BMO Capital Markets Investment Strategy Group, FactSet.

The stock market has not only broadened out, but participation levels have also improved significantly. As of September 19, 2024, 339 of the stocks in the S&P 500 have outperformed the broader index, which represents the highest level in approximately 22 years. This can be seen in Chart 4 below.

CHART 4

Exhibit 3: Percentage of S&P 500 Stocks Outperforming Also on Pace for Best Performance Since 2002

Number of S&P 500 Stocks Outperforming the Index

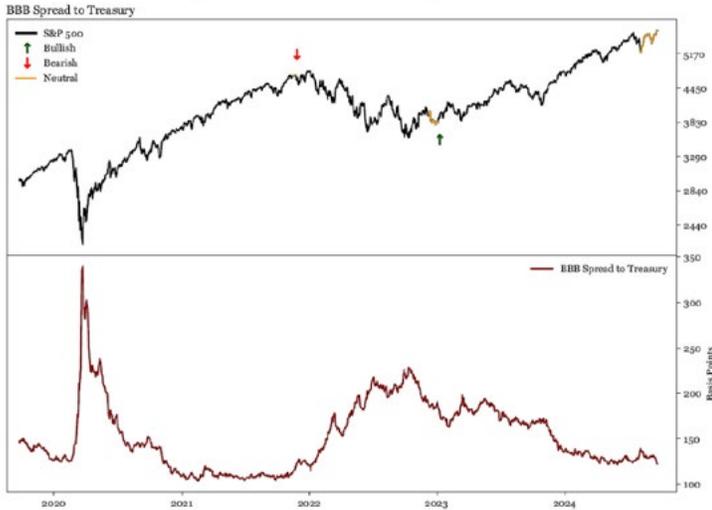


Source: BMO Capital Markets Investment Strategy Group, FactSet.

In addition to a decent economy, stock market strength, and the broadening of market breadth, the bond market is also giving off signals that are consistent with a soft landing. Credit spreads, as measured by the differential between BBB-rated bonds and the 10-year Treasury yield, remain tight and near the low end of the range from the last 5 years. If a recession was lurking around the corner, we would expect credit spreads to widen out as fears about credit losses at

CHART 5

Spreads Testing Lows



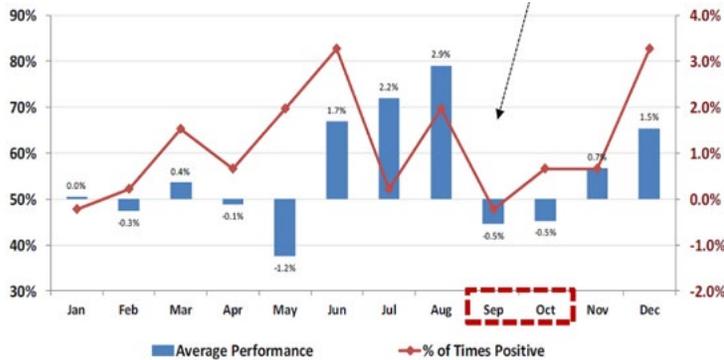
Source: RENMAC

the banks would cause this to happen. But we are not seeing that. In fact, credit spreads have been narrowing as of late and currently sit at their lowest levels since the beginning of 2022, as seen in Chart 5 above.

Bringing it all together, the sign posts that we monitor appear favourable and all point towards a soft landing for the global economy. So what can go wrong? In terms of the risks, we would

CHART 6

Election Years: S&P 500 Average Return (1929-2020)



Source: Oppenheimer & Co. and Bloomberg. NOTE: These results cannot and should not be viewed as an indicator of future performance. return calculations exclude applicable costs including commissions and interest.

highlight geopolitics, above average valuations in the U.S., and the potential for stock market volatility as we approach the U.S. Presidential Election in early November. In terms of valuations, the S&P 500 is heavily skewed by the Magnificent Seven and other Technology stocks. We would argue that many of the large Technology stocks deserve to trade at above average valuations given their attractive growth profiles, their robust free cash flow generation, and their fortress like balance sheets. Excluding the Magnificent Seven, the S&P 500 still trades at a premium to the 10-year average but not excessively so. On a historical basis, the lead up to U.S. Presidential Elections has been associated with elevated volatility in the stock market. Therefore, we would not be surprised to see a stock market pullback or a correction as we get closer to the election. Since 1929, the S&P 500 has averaged negative returns in both September and October during a Presidential election year as seen in Chart 6 on the left.

While we were spared from market weakness that typically occurs in September, we'll be on guard for potential volatility during the month of October. Furthermore, we will be ready to act and take advantage of any opportunities that are presented to us.

Portfolio Review

During the third quarter, we established several new positions in our Global and International portfolios. In our Global strategy, we established new positions in Amphenol and Nvidia. In the International strategy, we initiated new positions in 3i Group, Disco Corp, and Recruit Holdings. A brief description of these companies can be found in the **Appendix**.

Outlook for H2 2024

In terms of our outlook, we continue to have a cautiously optimistic view. First, the global economy continues to show signs of resilience and concerns about an economic recession have faded. Second, central banks around the world have begun the process of cutting interest rates, which should provide support to the global economy. Third, corporate earnings have been steady and should get support as both inflation and interest rates continue to fall. For all these reasons, we continue to have a favourable outlook for global equity markets.

APPENDIX A

Company descriptions for new positions added to the Global Strategy

Amphenol

Amphenol is a designer, manufacturer, and marketer of connectors, interconnect systems, and sensors that are used across a wide range of applications using electricity, mobile phones, automobiles, airplanes, and IT data centres. The company has expertise in producing connectors and sensors that are used in harsh environments, where factors such as temperature, pressure, vibration and moisture place stress on the components. In general, its products are used in applications where the cost of failure is much higher than the price of the component. Amphenol is the leader within the connector and interconnect systems industry, which is a relatively fragmented market with the top 10 companies garnering a market share of approximately 60%. The company's products are well positioned to benefit from secular growth themes including of increasing electrification in automobiles, Artificial Intelligence through data centre growth, and the Internet of Things. A solid balance sheet and strong free cash flow generation allows them to acquire companies that allow them to gain market share and to expand their addressable markets.

Nvidia

Nvidia is a leading designer and manufacturer of graphics processing units (GPUs), accelerated computing platforms, and Artificial Intelligence (AI) software. The company's products are essential for powering AI and data centre deployments, and demand for these solutions is surging due to the rapid growth of AI. Nvidia's leadership in accelerated computing has positioned it at the forefront of technological innovation, driving robust revenue and earnings growth. We purchased the stock opportunistically, following a pullback in the market, which brought the stock's valuation to reasonable levels.

APPENDIX B

Company descriptions for new positions added to the International Strategy

3i Group

3i Group is a private equity company with over 70% of its net asset value accounted for by a company called Action. Action is a leading European-based store concept that has consistently outperformed the industry over the last 13 years since it was acquired by 3i Group. Starting in Netherlands with 1 store 30 years ago, Action has grown to become Europe's fastest-growing non-food discounter. With 2,685 stores and 17.3 million weekly customers, Action offers a constantly changing selection of 6,000 products at unbeatable prices. The company has more than 72,000 employees and has stores

across 12 countries throughout Europe. Action has a strong track record of double-digit sales growth driven by same-store sales growth in the mid-to-high single digits plus store growth. A treasure hunt shopping concept and merchandising around 14 core necessities keeps traffic high. The company's private label product offering enhances growth and is also accretive to margins. Management believes it can expand its current store base of approximately 2,700 stores to potentially a further 4,700 stores just in the markets they are presently operating in. Management is also currently considering the possibility of expanding its store base outside of Continental Europe. We believe there is a long runway of growth ahead for Action.

Recruit

Recruit Group was launched in 1960 in a small, prefabricated rooftop unit in Tokyo. The Group's first product was a job-hunting magazine for university students called "Invitations to Companies," and its goal was to create an open job market for new graduates by widely disclosing recruitment information. Since that time, Recruit has grown into a dominant Human Resources Technology company. The key driver for the company is its Indeed job recruiting platform which operates in more than 20 countries with a significant presence in small to medium size enterprises. In addition to Indeed, the company also owns the world's 4th largest and the highest margin staffing company. Aside from continued market share gains, Recruit also benefits from geographic expansion and its expansion into higher paying jobs. Recruit is pursuing a long-term strategy to transform its Human Resources technology from its current pay-per-click model to eventually a pay-per-hire model. Through this transformation, Recruit's total addressable market is expected to expand tenfold to \$327 billion and they aim to increase their take rate from less than 1% to a significantly higher level. By comparison retained search take rates can be as high as 20%.

Disco

Disco is the dominant semiconductor dicer & grinder equipment provider with market share of 85% and 65% respectively. Their products are recognized for speed, low wastage, less chipping & warping, which are all important in enhancing semiconductor manufacturing yield. Disco is also well placed in the emerging 2.5D/3D advanced semiconductor packaging trend as a means to advance semiconductor performance and miniaturization beyond lithographic processes. Disco is a beneficiary of increased spending of more than \$10 billion in semiconductor backend processes announced by the likes of Taiwan Semiconductor and Intel in Malaysia & New Mexico. Disco also benefits from strong high bandwidth memory demand used in AI servers where their superior product performance is a critical factor and requires more dicing & grinding steps.

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