Wellington Global Quality Growth Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities remained steady for most of the month but sold off in the final days, as investors awaited key US elections, navigated heightened geopolitical tensions in the Middle East, and assessed ongoing policy easing measures. Favorable US economic data, including subdued inflation, drove expectations that the US Federal Reserve (Fed) may slow its pace of rate cuts. This sentiment was further emphasized by the notable rise in 10-year Treasury yields, which reached 4.28% in October, up from a 15-month low of 3.62% in late September, underscoring the market's expectations for the pace of Fed rate cuts, positive economic indicators, and improved prospects for a soft landing. In Europe, third-quarter GDP exceeded expectations, and the European Central Bank lowered interest rates by 25 basis points, to 3.25%, amid waning inflation and a weak economic outlook. Emerging markets faced pressure from a stronger US dollar, while the conflict in the Middle East reached its one-year mark, with military strikes escalating between Israel and Iran.

The MSCI All Country World Index Net returned -2.2% over the period. Within the index, nine out of 11 sectors declined for the month. Materials and consumer staples were the bottom performing sectors, while financials and communication services were the top performing sectors over the month.

FUND PERFORMANCE AND ATTRIBUTION

- The fund outperformed the index for the month, however delivered negative returns.
- Security selection was a driver of relative outperformance. Strong selection in consumer discretionary, information technology and financials was partially offset by selection in communication services and health care. Sector allocation, a result of our bottom-up stock selection process, also contributed to returns. Allocation effect was driven by our underweight to materials and overweight to communication services and financials, but modestly offset by our underweight to energy and overweight to health care.
- At the issuer level, our top two relative contributors were overweights to Wells Fargo and Targa Resources, while our top two relative detractors were an overweight to Capgemini and an out of benchmark allocation to ICON.
- Shares of Wells Fargo rose over the period after the financial services company reported third-quarter profit above expectations as a surge in investment banking fees countered a drop in lending revenue due to lower interest rates. Shares of Capgemini, a French consulting and technology group, fell during the period after the company reported weaker than expected results for the third quarter. Revenue declined 1.6% year-over-year due to weakness in manufacturing. Capgemini also cut its 2024 revenue forecast for the second time this year.

FUND POSITIONING AND OUTLOOK

Global equities fell during the period after five straight months of gains. Dominant AI and technology trends that drove strength in the beginning of the year waivered at the start of the period as the market digested the potential impacts of a China stimulus package, but ultimately these companies outperformed on strong earnings. Markets are showing signs of typical seasonality coupled with reservations ahead of the US presidential election, driving a sell-off in Treasury yields and an upswing in bond volatility, while growth stocks regained leadership over value following a reversal in the third quarter. Skepticism persists around the effects and sustainability of stimulus packages in China, and geo-political concerns remain top of mind. Policy makers continue to monitor various data points when determining the magnitude of expected rate cuts.

The macroeconomic indicators we monitor in our Global Cycle Index to understand where we are in the global economic cycle currently point to stable but low growth and an environment of reasonable inflation and low unemployment, which may support a soft landing or no landing narrative. Global manufacturing levels are positive overall but vary by region. Global growth has largely depended on the US economy, while Europe and China have disappointed. We have seen signs of slowed consumer spending; however, with lower rates, a deceleration looks unlikely given persistent government spending. Looking to the end of 2024, the range of outcomes has narrowed, but we continue to monitor various macro signals, moves by the Federal Reserve, aftermath of the US election, and escalating geopolitical tensions, all of which could drive higher volatility through the end of the year. We are not explicitly positioning the portfolio for a specific outcome; however, we are not discounting the potential for a macro surprise given the unique market backdrop. Therefore, when ranking stocks, we continue to lean into our disciplined, proven, and repeatable philosophy and process, anchored deep in fundamental research, and maintain equal weights of 25% each to our forecasts for growth, quality, valuation upside, and capital returns.

At the end of the period, our largest overweights were communication services and financials. We were most underweight to materials and energy and had no exposure to utilities. From a regional perspective, our largest overweights were United Kingdom and Developed Europe & Middle East ex UK. We were most underweight to North America.

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