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International Alpha Q1 investment update

April 2025

Investment manager Chris Davies and investment specialist Andrew Brown give an update on the International Alpha Strategy covering Q1 2025.

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Andy Brown (AB): Hello. Welcome to the International Alpha quarterly video. My name is Andy Brown. I'm an investment specialist for the International Alpha Strategy and I'm joined today by Chris Davies, a member of the Portfolio Construction Group for International Alpha. Chris, hi.

Chris Davies (CD): Andy, hi.

AB: Chris, for a very long time now, international equities have underperformed U.S. equities. In fact, the idea of U.S. exceptionalism has become very much a consensus view. Now, acknowledging a quarter is a very short period of time, something seems to be changing. Sentiment is changing and international equities have actually outperformed the US. What's going on?

CD: So, I think you're right, Andy, what we've seen is a very long period and an unusually long period of US outperformance. I think the most striking statistic I've come across is that if you were to look at five-year rolling periods of performance, the US has actually outperformed international equities for 13 consecutive years. That is quite extraordinary, I think. And there are various reasons for that. What we have seen quite clearly is that you've had the meteoric rise of the US tech companies. That has led to an extraordinary period of concentration in the US market. So, I think at one point last year, the top 10 companies in the S&P 500 accounted for about 40 per cent of the index, which is quite substantial. And most of that was driven by the Magnificent Seven, the big tech companies in the US.

What we see in international markets, however, is a much lower level of concentration than that as a starting point and generally lower valuations because obviously the US has re-rated relative to international markets. Now, what we've seen in the quarter is some of those trends reverse. So actually, what you've seen, as you've already pointed out, is international doing better than the US.

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That's partly because many of the US technology companies have given up some of their gains. So whereas we might have talked about the Magnificent Seven, I think people are now talking about the Super Six.

We've also seen, I think, some slightly more disappointing economic data come out of the US. And inflation seems to have been a bit more stubborn. Now, contrast that with what we see in Europe, for example, which is a very large proportion of our universe, where sentiment has actually been trading up, business sentiment in particular. And we've also seen actually Chinese stocks have done pretty well. Part of that has been because of fiscal stimulus from the Chinese government, but also there's, I think, a generally more favourable regulatory backdrop, particularly for non-SOE companies in China.

AB: You mentioned Europe, Chris, which happened to be the top performing region within international equities during the quarter. And it's an area where we have significant amounts invested for our clients. What's going on there?

CD: So, a few things are happening in Europe. I think, first of all, we've seen interest rates come down a bit faster than they have in the US. We've seen quite a bit more lending going on. And more recently, I think it's fair to say that there's been a lot more excitement about European rejuvenation. I'm sure clients will have seen the headlines about fiscal stimulus in Germany, the big 500 billion euro bazooka fund. There's a bigger picture across the European Union where I think there is a realisation that more spending needs to happen across a variety of areas, particularly infrastructure and defence. So I think that provides a context that has been quite helpful for Europe as a region more generally.

AB: This all sounds very encouraging, but it's actually been quite a tough environment, hasn't it, for growth investors in Europe? Why is that?

CD: Yeah, I think that what we've seen really in Europe is that some of the older parts of the market, what I would call old Europe, have done pretty well. So, as I mentioned, we've seen infrastructure and defence sentiment really rising there, and you see that in the companies as well. So, defence stocks, for example, have been very strong. European banks have done quite well. And these are sectors that we generally don't have very much money invested in. Now, the flip side of a tricky environment for growth investors looking at Europe is that you do get some interesting opportunities to buy attractive growth companies at attractive prices. So, during the quarter, for example, we bought Nova Nordisk. which is one of the most exceptional growth companies in Europe. Now, we initially looked at it last year and decided the valuation was far too rich. We waited. And clients, of course, will have heard us talk about trying to be more rigorous about valuation. I think this is a very good example of that. And the shares have fallen 50 per cent or so since we initially looked at it. We bought a holding in that. But I think that's a really good example of trying to take advantage of volatile market conditions, conditions that are really quite difficult for growth investors. Because we're thinking about those long periods where we're trying to find those growth companies that will prosper over five years and beyond.

AB: Tell me more about Novo Nordisk. It's one of Europe's great companies, isn't it?

CD: So, its history really is in insulin, so treating diabetes using insulin. More recently, they've developed new generations of drugs, particularly the GLP-1 drugs, which I'm sure clients will have heard a lot about. They have two big brands here, which are both derived from the same underlying compound, which is called semaglutide. They have Ozempic, which is semaglutide for diabetes. And then they have Wegovy, which is semaglutide for obesity. And that latter part of the case is really where we think the big growth opportunity is over the next 10 years. Obesity is a massive problem around the world, particularly in the US. So, we think they've got a great opportunity to grow into that. They make very, very high returns on capital. They've got a very attractive governance setup as well, a long-term owner in the form of the Novo Foundation. So, we think actually the next 5 to 10 years could be very, very good for Nova Nordisk. And as I mentioned, the valuation had become significantly more attractive. So, we took a holding.

AB: Well, sounds like an excellent long-term opportunity.

Chris, it would seem remiss not to talk a bit about current market conditions. We are seeing a lot of turbulence out there. How have the recent developments impacted your thinking on the portfolio?

CD: Yeah. Well, turbulence seems to have become the new normal, I think, over the last five years. We've had a global pandemic. We still have a war in Europe. And certainly in 2022 and 2023, we saw interest rates spike from having been absolutely nothing and inflation being quite high and quite sticky.

So, what we've seen actually is our companies navigate that pretty well. And that's because they have lots of resilient qualities. So, strong balance sheets, strong cash generation, superior profitability. We have a high degree of trust in their ability to navigate more choppy waters ahead. And there probably will be more choppy waters ahead. So, that's one part of it.

The second thing I'd say is that I think a diversified portfolio is going to do quite well in this environment. And clients will be familiar with our flavours of growth. We have our quality compounders, rapid growth companies, our through cycle winners, and our capital allocators. And in difficult environments, particularly if we end up going into something more recessionary, the quality compounders will come into their own. So, I'm thinking names like Unilever and Novonesis, for example, which tend to have much more defensive characteristics. So, I think we feel pretty good about the resilience of the companies and their ability to navigate difficult times and also the diversified nature of the portfolio.

AB: Thank you, Chris. Yeah, I certainly have a lot more confidence in the quality of our companies than what might come next in terms of the policy announcements. Well, thank you very much for your time today.

CD: Thanks, Andy.

AB: And thank you, everyone, for listening.

International Alpha

Annual past performance to 31 March each year (net%)

	2021	2022	2023	2024	2025
International Alpha Composite	61.4	-16.3	-5.6	9.0	5.0
MSCI ACWI ex US Index	50.0	-1.0	-4.6	13.8	6.6

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years
International Alpha Composite	5.0	7.9	5.6
MSCI ACWI ex US Index	6.6	11.5	5.5

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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