

Market Commentary

Global Market Overview for Q3 2024

During Q3 2024, global equity markets saw steady performance driven by regional economic conditions and central bank policies. Inflation stabilized, and with it, several central banks, notably the U.S. Federal Reserve, began rate cuts, encouraging a more favorable environment for equities.

These rate cuts helped drive emerging market performance as lower financing costs and dollar weakness drew investors to this long-neglected part of the market. This environment spurred EM equities, as measured by MSCI indices to outperform developed markets by 2.4%, with regional variations reflecting local economic dynamics and investor sentiment.¹

Key Country Performances¹

- China:** China is the one equity market that let the final charge. Chinese equities lagged all other large equity markets up until the PBOC announced substantial stimulus measures aimed at stabilizing the real estate sector and stimulating the broader economy. China's market soared 25% in a matter of days and the MSCI China index finished the quarter up 21.7%.
- Brazil:** Despite some volatility, Brazil's equity markets rose by 7.3% for the quarter, slightly less than the emerging markets overall. Supported by strong investor confidence, sectors such as financials and energy drove gains, though performance was tempered by inflationary pressures and concerns about currency stability. The strength in Brazil's domestic market has drawn attention, as investors see the potential for further fiscal reforms.
- South Africa:** The MSCI South Africa index gained 16.14% in USD terms, spurred by a rally in the technology and industrial metals sectors. The South African Reserve Bank followed the Fed's lead, implementing its first rate cut since the pandemic in September, a move that supported equity gains. Strong performances from companies like Naspers and Discovery helped drive the market, although some sectors like chemicals and healthcare lagged.
- India:** India's market maintained a steady upward trajectory, with the MSCI India index rising 7.4%. Sectors such as information technology and financials showed resilience, while investor interest was buoyed by expectations of further fiscal reforms. India's growth outlook has remained strong, attracting foreign inflows despite global economic uncertainties.
- Mexico:** Mexico's equity market moderated from last year's strong returns with its MSCI index falling 3.3%. While inflationary pressures remain, a relatively stable peso and a resilient economy have provided support. The country's proximity to the U.S. continues to position it as a strategic investment destination amid North American trade integration trends.

2024 highlighted the resilience of emerging markets, bolstered by China's proactive fiscal support and the U.S. Fed's easing stance. With significant variances across countries, the outlook for emerging markets remains cautiously optimistic as local economies adapt to global monetary policy shifts and domestic reform agendas. The markets remain at a significant discount to developed markets and stand to perform if current trends lead to continued dollar weakness.

The actions of the Chinese government do not change our long-term investment perspective on the country. Demographics are the worst of any large economy, private sector debt hampers economic growth, and until the country transitions to a more consumer driven economy, deflation will remain a problem. Shareholder rights are a concern as firms are run more for the government and the management than the owners and investors. However, the market is tradeable, and at these valuation levels, continued stimulus by the government would lead to short (1-3 years) term outperformance.

Fund Performance

For the third quarter, the Shelton Capital Emerging Markets Fund returned 4.62%, underperforming the MSCI Emerging Markets index return of 8.72% by 4.10%.

It was the most challenging quarter the fund has experienced under the current management team. There have been quarters of outperformance of this magnitude, but rarely. Even under a risk management doctrine as disciplined as ours there will still be outlier quarters.

Country allocations had a minor effect on portfolio performance. A slight underweight to China detracted a bit from performance in the last few days of the quarter. Our relative positions in Mexico, South Korea and underweight India also hurt. The overweight in the Philippines was helpful, a position the fund has maintained for some time.

Portfolio Managers

Derek Izuel, CFA



Derek Izuel, CFA is Chief Investment Officer and a Portfolio Manager of the International Strategies. He has over 24 years of portfolio management experience at Invesco, HighMark Capital and Vitruvian Capital. Derek earned his MBA from the Ross School of Business at the University of Michigan and a B.S. in Computer Science from the University of California at Berkeley.

Justin Sheetz, CFA



Justin Sheetz, CFA is a Portfolio Manager of the International Strategies. His experience includes 12 years as an Investment Strategist at Blackrock/BGI's Scientific Active Equity Group, 3 years as VP and Equity Analyst at HighMark Capital and 3 years as partner at Vitruvian Capital.

Tony Jacoby, CFA



Tony Jacoby, CFA is an Equity Analyst of the International Select Equity Fund. He has a B.A. in Economics from the University of Colorado Boulder and is currently pursuing an M.S. in Applied Mathematics with an Applied Probability concentration at the University of Colorado.

3Q 2024 Shelton Emerging Markets Fund Commentary

Fund Performance (continued)

Our position in Greentown Management was a top detractor during the quarter with the shares losing 30% in US dollar terms as the company announced several disappointments during July. Greentown Management announced first half 2024 earnings with an increase in net profits, but below consensus estimates due to lower fees from government projects and didn't announce an interim dividend as had been firm policy in previous periods. The firm also announced management turnover including Li Jun a founding member of the company. While Greentown ranked highly on most of our models prior to the start of Q3 2024, our models started to show deteriorating fundamentals and lower analyst expectations, and we closed our position.²

After advancing 14% during Q2 2024, shares of HDFC, an Indian bank, dropped 2% during the third quarter. Shares had advanced on expectations that the shares would be re-weighted higher in the MSCI Emerging Markets index later in the quarter. The rise was tempered due to an earnings update which highlighted fewer loans and lower deposit growth. We've held the position for a considerable time due to positive rankings on our price target models and improving consensus estimates. HDFC is a major component of the Indian financial sector in the MSCI Emerging Markets benchmark.²

Alfa SAB, shares rose on news of a recapitalization plan and the spin-off of petrochemical group ALPEK. ALFA shares have ranked well along our quality and proprietary price target models since early May 2024. The shares rank more modestly based on our earnings models that follow industry expectations. Our overall rankings have moderated somewhat as the share prices have advanced 40% in US dollars terms.²

GF Securities, a Hong Kong-based brokerage firm, announced strong first half of 2024 earnings led by lower expenses, despite a drop in asset management fees. Shares of the firm jumped 67% in US Dollar terms during the quarter. GF scored strongly on our broad suite of quality metrics versus its Chinese brokerage industry peers and also traded at a discount to its risk-adjusted price target based on our models.²

¹ Bloomberg

² Axioma

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The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,441 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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