New Capital
Euro Value Credit Fund

Quarterly Commentary | As of 31 March 2026

Market overview

Markets began the year on a positive note in January, with the MSCI All Country World Index rising 2.9% in US dollar terms, driven by a nearly 9% gain in emerging markets. US small caps outperformed, and value stocks continued their recovery versus growth stocks. Commodity prices saw unusual volatility, with gold, silver, and copper reaching new all-time highs and oil rebounding due to geopolitical tensions, including US military action in Venezuela, conflict with Europe over Greenland, and threats of intervention in Iran. Concerns about the Federal Reserve's independence, heightened by a criminal investigation into Chairman Powell, pushed government bond yields higher, though the nomination of Kevin Warsh as Powell's successor helped ease fears and led to a correction in commodity prices. Despite a partial recovery, the US dollar remained down 1.5% in trade-weighted terms since the start of the year. Stock markets were buoyed by a solid global economic cycle and expectations of Fed rate cuts, with corporate profits revised upward and projected to grow by double digits for a second consecutive year, though elevated valuations warrant caution.

In February, global equity markets continued to rise, with the MSCI All Country World Index up 1.3%, bringing year-to-date gains to 4.3%. Gains were driven by markets outside the US, as the S&P 500 fell 0.8% and lagged other developed and emerging markets, which were up more than 14%. Value, small, and mid-cap stocks outperformed growth and large caps, particularly as tech companies weighed on performance. Safe assets rallied alongside equities, with falling government bond yields, rising gold prices, and a stronger Swiss franc, reflecting heightened risk of US and Israeli military action against Iran and concerns about credit quality. The US earnings season remained robust, but the announcement of over $600bn in artificial intelligence (AI)-related investment by US hyperscalers raised questions about future profits. The US Supreme Court's ruling against Trump's tariffs under the International Emergency Economic Powers Act led to a decrease in effective US tariff rates, supporting the global business cycle.

March saw a sharp reversal, with the MSCI All Country World Index falling 7.1%, erasing earlier gains and leaving first quarter performance at -3.1%. Bonds also declined as yields rose on fears of renewed inflation and more restrictive central bank policies. The shift in sentiment was triggered by the US and Israel's war against Iran, resulting in the closure of the Strait of Hormuz and threatening global supply chains, especially for energy, agri-food, steel, and semiconductors. The US, less dependent on these supplies, saw its equities and bonds outperform and the dollar strengthen, while non-US markets and currencies suffered. Notably, gold prices fell despite expectations of safe haven demand, as investors and central banks sought liquidity to address emergencies. Nevertheless, medium- to long-term fundamentals for gold remain supportive of a gradual price increase.

Fund performance and positioning

The Fund generated a negative return in the first quarter, as the positive performance in January and February were more than offset by the market disruption in March. The conflict in Iran throughout March and the escalation of geopolitical tensions led to a surge in oil prices, driving inflation expectations higher and shifting the macro narrative towards stagflation risk.

In absolute terms the Fund returned -1.42%, underperforming the benchmark by 46 basis points (bps). The positive contributions from carry (92bps) was offset by the impact of rising rates (-129bps) and widening credit spreads (-98bps).

European government bond yields rose over the quarter, and the yield curve flattened, with 1 and 2 year yields increasing by 50bps while the long end remained broadly unchanged. Markets came into the year with expectations of stable policy rates in the eurozone, but rapidly moved to price in multiple rate hikes from the European Central Bank (ECB), impacting the more policy-sensitive short end of the curve. The portfolio maintained a slight overweight duration position which resulted in a degree of relative underperformance, exacerbated by an underweight to longer rates which delivered relatively stronger performance.

Credit spreads widened, particularly in high yield and in higher beta segments. Emerging markets overall underperformed with specific pockets of weakness in markets more exposed to the conflict in Iran. The Fund's exposure to high yield, hybrid debt securities and Middle East countries detracted from performance in a risk-off environment.

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	New Capital Euro Value Credit Fund	BofA Merrill Lynch European Large Cap Corporate Bond Index	Difference
1 Month	-2.71%	-2.28%	-0.43%
3 Months	-1.42%	-0.96%	-0.46%
6 Months	-1.25%	-0.73%	-0.52%
YTD	-1.42%	-0.96%	-0.46%
1 Year	+1.70%	+1.88%	-0.18%
3 Years	+13.77%	+13.50%	+0.27%
5 Years	-4.95%	-1.20%	-3.75%
Since Inception Annualised	+0.05%	+0.74%	-0.69%
Since Inception (29/09/2017)	+0.39%	+6.48%	-6.09%

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Outlook

Developments in the Middle East remain a key source of uncertainty and could lead to rapid shifts in the macroeconomic outlook. Government bond yields will likely continue to be volatile, with the potential to sell off should a lasting peace not be achieved. Credit spreads should benefit from some support from solid fundamentals, demand for income and limited net supply, but macro uncertainty and rate volatility may dictate spread direction. The portfolio strategy remains broadly unchanged. We maintain a constructive but selective approach to investment grade credit with a barbell strategy, income from shorter-duration higher yielding exposures combined with longer duration high-quality assets. We continue to focus on issuers with strong balance sheets and resilient cash flow generation, while ensuring broad diversification across regions and sectors.

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MARKETING COMMUNICATION

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All sources: EFG Asset Management (UK) Limited ("EFGAM"), Factset, Bloomberg, Morningstar as at end of the month. Any other sources as applicable.

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