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Longevity Economy strategy

Despite strong market rotations, the strategy behaved positively over the month

- Equity market led by stocks perceived as benefitting from an increase in interest rates
- Positive contribution from our 'Silver Spending' and 'Senior Care' themes
- Focus remains on long-term changes brought about by ageing populations

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What's happening?

Global equities rose in March, led by stocks perceived as benefitting from an increase in interest rates, such as banks. Stronger than anticipated US employment figures, fiscal stimulus and ramp up in vaccinations in the World's largest economy do provide reasons for optimism. However, the magnitude of the shift in investor attention from the ongoing COVID-19 pandemic to the expected effect of easing social distancing requirements is remarkable given only a small minority of the global population has been vaccinated and multiple countries are increasing, rather than decreasing, social distancing requirements.

In the US, lawmakers passed a large fiscal stimulus package and Democrats are preparing further legislation on infrastructure and healthcare spending. Given the narrow majority the Democrats hold in both legislative chambers, the extent of measures that can be enacted is unclear.

Portfolio positioning and performance

The Longevity Economy strategy underperformed the broader equity market (MSCI All Country World) in March, however, its absolute performance remained in positive territory. Performance over the month was led by our 'Silver Spending' and 'Senior Care' themes whilst our 'Wellness' holdings somewhat affected the positive contribution.

The strategy's wellness theme encompasses digital health stocks such as telemedicine provider Teladoc and COVID-19 test manufacturer Quidel. Given the strong performance of these companies during the height of the COVID-19 pandemic, it is no surprise that we are seeing some short-term volatility in these stocks. Over the long-term it is likely that the pandemic has accelerated demand and expanded markets for technologies such as telemedicine and diagnostics.

Senior care focuses on companies that serve the health and social care needs of older consumers, for example health insurance and home health nursing providers. This theme performed well in March as lawmakers in the US, the world's largest market for healthcare, proposed reforms to support the Affordable Care Act, also known as Obamacare, a move that is seen as positive for care providers and operators of government-sponsored healthcare schemes.

Silver spending companies include those providing travel and leisure and financial planning services to older consumers. In March, financial planning holding, Prudential, rose as investors showed greater appreciation for management's business strategy. The firm is expected to spin-off its US Jackson National operation, pivoting Prudential's focus to faster growing Asia markets, similarly the firm is embracing technology, which should improve delivery of health services to members.

Outlook

Since the beginning of 2021 we have seen a significant steepening of the US Treasury yield curve, Fed Chairman Jerome Powell has described the move as "a statement of confidence" in the economic outlook. At the same time, although there has been rotation between sectors, equities have posted positive returns so far in 2021 and volatility remains low. If the yield on "risk free" assets continues to increase, it seems unlikely that this low volatility trend for risk assets, such as equities, can continue. A persistent increase in risk-free asset pricing will necessitate a re-pricing of risk assets.

Investors appear to be looking towards a return to normality in economic activity, but governments across multiple regions continue to take expansionary fiscal measures, suggesting they do not perceive the economic fallout of the pandemic has passed completely.

Stepping back from macroeconomic considerations, we retain the view that high quality management teams, operating businesses with a sustainable competitive advantage and with the benefit of secular tailwinds are well-placed to navigate the current disruption. Despite the headwinds many businesses have faced over the last 12 months, the unshakeable conclusion on the outlook for the Longevity Economy is that the global population continues to age and this creates opportunities for companies that are positioned to benefit from long-term changes in consumption patterns that ageing populations will bring.

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