Investment Managers

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March 2021
Monthly Perspectives
Framlington Equities

FinTech Strategy

Re-opening of the economy and rising interest rates: performance of payments stocks and banks

- The value / growth rotation narrative remained firmly in place
- Some leverage-driven events which generated short-term volatility but didn't affect broader equity markets
- Initiation of a position in Hypoport SE

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What's happening?

The tug-of-war between favorable economic re-opening newsflow and steepening yield curves continued to drive global equity markets in March.
The value / growth rotation narrative remained firmly in place. SPACs were under renewed scrutiny, with the SEC seeking information from certain Wall Street banks about their dealings in the space, while the implosion of family office/hedge fund Archegos highlighted the significant risks posed by excessive financial leverage in the broader shadow-banking industry. Despite these leverage-driven events, which generated some bouts of extreme short-term volatility, broader equity markets remained largely unaffected with the S&P500 solidly up in March.
Political tensions between the US and China ratcheted-up again this month, following western sanctions on Chinese officials accused of human rights abuses in the Xinjiang region. China's March PMIs were nevertheless solid and highlighted the strength in the economy following the Lunar New Year break, confirming that consumption is coming back to life after virus constraints were relaxed.

Portfolio positioning and performance

The FinTech strategy under-performed its performance benchmark in March. The main positive contributors were payment stocks that stand to benefit from a gradual re-opening of the economy, namely American Express, Global

Payments, Fidelity National Info Service, Fiserv and Shift4Payments. The banks holdings also performed strongly thanks to their exposure to rising interest rates.
Main negative contributors were the London Stock Exchange (reset of expectations post-merger), Brazilian businesses StoneCo. and Pagseguro (Pandemic situation in Brazil), Cybersecurity stock ZScaler and banking software provider Q2 holdings (broader tech space pull back).*

In March we initiated a position in Hypoport SE, the leading digital mortgage issuance platform in Germany.

* Stock shown for illustrative purposes only and should not be considered as advice or a recommendation for an investment strategy.

Outlook

The Covid-19 pandemic generated strong interest in almost any company active in the Fintech space, often regardless of the underlying quality of the business. As expected, this is starting to normalize as economies gradually reopen. For example, Chinese fintech firm Bairong Inc. recently slumped on its debut in Hong Kong following a global selloff in China's technology sector. Bairong sells itself as an artificial intelligence-powered technology platform but still generates lots of its revenue from peer-to-peer, a grey area that is likely to face more government crackdown. We believe this increased investor selectivity in the Fintech space is a strong positive at it will reward the best business models. The fund is positioned accordingly, with a focus on those companies offering more diversified business models that should benefit from the re-opening of the global economy.

Overall, we believe that the Fintech strategy is well positioned for the post Covid-19 world, with a strong focus on structurally growing businesses with solid balance sheets. The Fintech businesses the strategy invests in are through-the-cycle growers. They will undoubtedly represent a larger part of the global economy in 5 years, even more so in 10 years.

No assurance can be given that the FinTech Strategy will be successful. Investors can lose some or all of their capital invested. The FinTech strategy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG.