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Global Thematics strategy

A common theme among corporates is the commitment to investment in digital solutions

- Markets rotation from growth towards value continued further in May
- Businesses within our strategy have demonstrated strengthening outlooks in many areas
- We added selectively to existing holdings across a number of themes

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What's happening?

Global equity markets rose further during May, initially continuing the rotation from growth towards value and then pausing later in the month. The rotation from growth towards value continues as a result of the expectation of macroeconomic recovery and potential rise in inflation.

US macroeconomic data has remained positive, with manufacturing and employment data both indicating continued growth, despite May payroll data below market expectations. The consumer balance sheet remaining healthy, and plans for fiscal stimulus supportive. Whilst inflation has picked up in the near term, the Federal Reserve has reiterated that this is likely to be temporary and interest rates are therefore expected to remain low.

COVID-19 restrictions have thus far weighed more heavily on economic activity in Europe but the vaccine rollout is gathering pace and expectations for a gradual normalisation are building, reflected in survey data suggestive of growing business confidence in key markets. Meanwhile, the ECB¹ remains supportive. In China, macroeconomic data has moderated and export data is sequentially weaker, somewhat disappointing the market.

The first quarter earnings season has been encouraging as businesses across the Evolving Economy have demonstrated resilience of earnings and, in many areas, strengthening outlooks. A common theme among corporates is the commitment to investment in digital solutions to supply chain issues and for broader resilience. This month's landmark report by the International Energy Agency underscores the scale of investment required in the adoption of clean technology. Recent census data from China highlights the pace at which its population is aging, a demographic shift which represents a significant opportunity for those businesses serving the silver society.

We remain convinced that the disruption caused by COVID-19 has accelerated existing secular trends, improving the long-term outlook for many areas of the Global Thematics.

¹ ECB: European Central Bank

Portfolio positioning and performance

In the context of the market rotation, the strategy underperformed the broader equity market (MSCI All Country World) in May. We saw a negative contribution from all five themes as a result of the rotation from growth into value.

This was most notable in the 'Connected Consumer' theme where Global Payments and Fiserv, both global leaders in digital payments, underperformed.

In 'Ageing and Lifestyle', Hoya Corporation delivered strong earnings and positive performance but was offset by Dexcom which gave back some of April's strength.

In 'Clean Tech', Kerry Group responded well to quarterly results which beat expectations and offered an encouraging outlook. NextEra Energy was relatively weak despite a constructive earnings release and solid outlook.

We made limited changes to the portfolio during May, exiting the remaining position in Bright Horizons and adding selectively to existing holdings across a number of themes.

Outlook

Macroeconomic conditions are mixed as a result of the varying degrees of success in managing COVID-19 and differing levels of policy support during disruption. In Asia, normalisation continues in most major markets. In Europe, the pace of the vaccine rollout is building, offering visibility of a path to normalisation and thus provides reason for optimism. Policy support remains strong and fiscal stimulus is expected to be associated with areas of the Global Thematics, including Digitalisation and the Energy Transition. Macro conditions in the US remain strong, with inflation currently appearing to be transitory, rates are expected to remain low. This should be positive for equities with a secular growth opportunity.

We retain the view that high quality management teams, operating businesses with a sustainable competitive advantage in their markets and with the benefit of secular tailwinds are well placed to navigate the current disruption. The strategy is therefore well positioned to benefit from the secular shifts we are witnessing globally.

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

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