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Global Thematics strategy

We continue to see encouraging prospects for a global economic recovery

- Value stocks have been weaker than growth orientated sectors in June
- We saw a positive performance contribution from all five themes
- We added to a number of existing holding

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What's happening?

Global equity markets rose further during June, as the recovery of growth relative to value continued. This reversal of the earlier rotation to value has been prompted by expectations of more moderate pace of interest rate rises.

US macroeconomic data has remained positive, with payroll and job creation data both indicating continued strength. Offsetting this is relatively low participation rate which indicates remaining 'slack'. Whilst inflation has picked up in the near term, the Federal Reserve has reiterated that this is likely to be temporary and interest rate rises are therefore expected to be moderate.

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, with industrial production notably damaged by weak auto production resulting from supply chain disruption.

The second quarter earnings season has been encouraging as businesses across the Global Thematics have demonstrated resilience of earnings and, in many areas, strengthening outlooks. 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.

Portfolio positioning and performance

The strategy outperformed the broader equity market (MSCI All Country World) in June. We saw a positive contribution from all five themes.

This was most notable in 'Connected Consumer' where software player ServiceNow, Paypal and Alphabet all outperformed.

¹ ECB: European Central Bank

In 'Ageing and Lifestyle', DexCom regained some earlier weakness to contribute positively.

In 'Clean Tech', Chinese solar player, Xinyi Solar and US energy efficiency specialist Ameresco both contributed positively.

We made limited changes to the portfolio during June, selling EPAM in 'Connected Consumer' following a period of strength and adding to a number of existing holdings, including Nextera in 'Clean Tech', Alibaba in 'Transitioning Societies' and Amazon in 'Connected Consumer'.

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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