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# Global Thematics strategy

## Concerns over Omicron variant overshadow improving economic backdrop

- Global equity markets finished lower in November
- Doubts about the efficacy of existing vaccines raises fears of further shutdowns
- Holdings in the 'Automation' theme helped to offset weaker performance

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### What's happening?

Global equity markets finished lower in November after the emergence of a new coronavirus variant (Omicron) and more hawkish commentary from the US Federal Reserve weighed on sentiment towards the end of the month.

The Omicron variant was initially discovered in South Africa but has since been detected in several other countries around the world and doubts about the efficacy of existing vaccines has raised fears of another flare up in cases and further shutdowns. Initial evidence suggests that Omicron may be more contagious but less deadly than previous strains although this has yet to be confirmed.

In the US, the consumer price index reached its highest level in over 30 years in October and the labour market continued to improve. Federal Reserve Chairman Jerome Powell, who was reappointed for a four year term during the month, spoke about the potential to accelerate the tapering of its asset purchases and notably dropped the use of the word "transitory" when describing inflation.

Economic data in Europe was mixed in November as a rebound in the purchasing managers' index was offset by falling consumer sentiment. Rising covid hospitalisations, coupled with concerns over the Omicron variant, has led several countries to introduce new restrictions.

China posted robust export growth for October, driven by strong demand from Europe, along with better than expected retail sales and industrial production. However, equities fell on concerns over the potential impact of its "zero-covid" policy on economic activity.

## Portfolio positioning and performance

The strategy underperformed the broader equity index (MSCI All Country World) in November. Our holdings in the 'Ageing & Lifestyle' and 'Connected Consumer' themes hurt most while 'Automation' made a positive contribution.

'Ageing & Lifestyle' was the worst performing theme led by our position in virtual healthcare services company Teladoc. The company provided solid revenue guidance for 2022 but membership growth and earnings were lower than expectations. Teladoc remains well positioned to benefit from the rising adoption of virtual care given its comprehensive whole-health model and integrated suite of virtual solutions.

In 'Connected Consumer', digital payments company PayPal weighed most on performance after the company reported disappointing results for the quarter and reduced its outlook for 2022. The stock has been under pressure over recent months on concerns over competition and its acquisition strategy but it remains well positioned in the digital payments space and valuations look more attractive here. Elsewhere, shares in digital solutions company Globant pulled back despite reporting another set of good results after having run up strongly over recent months.

On the positive side, our position in wireless technology company Qualcomm added meaningfully in 'Automation'. The company issued revenue and earnings targets well ahead of expectations at its recent investor day citing strong momentum outside of its traditional smartphone basebands in areas such as autos, consumer and industrial internet of things and PCs, all of which notably increase its addressable market.

Trade activity was limited during the month and strategy positioning is broadly unchanged.

## Outlook

Macroeconomic conditions remain supportive with economic indicators in expansive territory, broadly accommodative monetary policy, and good progress in vaccination campaigns. The recent discovery of the Omicron variant is cause for concern but the world is better prepared than before with higher vaccination coverage and improved treatment options. Meanwhile, the trends underpinning the Global Thematics continue to strengthen.

Solid industrial activity and strong order books for industrial robotics companies highlight the positive outlook for Automation while ongoing supply chain disruptions only strengthen the case for automated solutions. Connected Consumer companies have benefitted from an acceleration in the adoption of digital technologies since the pandemic and we expect this to continue as the economy forges ahead with its digital transformation. Further commitments from nations globally to dramatically lower emissions, combined with the recent volatility in energy prices, underlines the need for clean energy, storage and energy efficiency solutions which provides a strong tailwind for Cleantech companies.

From a demographic standpoint, the ageing global population continues to create opportunities for Ageing & Lifestyle companies which are positioned to benefit from long term changes in consumption patterns. The regulatory clampdown has weighed on sentiment in China but trends which include increasing wealth and financial inclusion, urbanisation and access to healthcare provide a positive backdrop for Transitioning Societies more broadly.

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 global thematics. 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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