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Global Thematics strategy

Economic activity continues to be robust despite increasingly volatile backdrop

- Global equity markets declined further in February
- 'Our 'Cleantech' theme posted a positive return
- Trade activity was limited during the month

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What's happening?

Global equity markets declined further in February as concerns over the prospect of higher interest rates were compounded by Russia's invasion of Ukraine later in the month. Economic sanctions imposed by nations across the world led to a sharp decrease in Russian assets while energy prices climbed to multi year highs. Value stocks continued to outperform growth led in particular by energy companies while banks sold off as financial conditions deteriorated towards the end of the month.

European equities fell the most given relatively high dependence on Russian oil and gas. Eurozone inflation reached its highest level on record at 5.1%¹ year-on-year with more than 50% the result of increased energy costs. Meanwhile, business surveys indicated an acceleration in economic momentum and the unemployment rate fell to a record low.

In the US, both the services and manufacturing Purchasing Managers' Indexes (PMI) notably increased and retail sales beat expectations. Inflation surprised to the upside again, reaching 7.5%¹ year-on-year in January, and the labour market showed further strength. Increasing uncertainty due the conflict in Ukraine has reduced the probability of a 50bps interest rate rise in March but the market continues to expect as many as six hikes this year.

The Bank of England raised rates by 25bps to 0.5%¹ in February with inflation not expected to peak for several more months. Rising commodity prices provided a tailwind for UK equities during the month given high exposure to energy and mining stocks.

¹ Source: Bloomberg as of 28/02/2022

Portfolio positioning and performance

The strategy underperformed the broader equity index (MSCI All Country World) in February amidst a backdrop of heightened volatility and continued outperformance of value-oriented areas of the market. The 'Connected Consumer' theme declined the most while 'Cleantech' posted a positive return.

Digital payments company Paypal detracted most from performance in 'Connected Consumer' after reporting weaker than expected results for the final quarter of 2021 and lowering guidance for the year ahead. Omicron and supply chain issues have had a disproportionate impact on smaller companies and cross-border activity which has weighed on payment company earnings. However, Paypal remains well positioned in the digital payments space with solid top-line growth and strong momentum in areas like "buy now, pay later" and peer-to-peer payments.

In 'Automation', our position in leading 3D design, engineering and entertainment software company Autodesk weighed on performance after management lowered guidance for 2023 citing supply chain issues, labour shortages, and currency headwinds. The targets look very achievable given ongoing digitalisation trends in its key architecture, engineering and construction, and manufacturing end markets, while further improvement in covid related disruptions would provide additional support.

'Cleantech' rose led by our positions in renewable energy solutions companies Ameresco and Alfen Beheer. The shares bounced back in February after having derated over recent months amidst the style rotation. The companies offer exposure to high growth areas like renewable energy, smart grid and EV charging, all of which become even more attractive in the context of increasing energy prices. Alfen demonstrated particularly strong momentum in 2021 results released during the month which showed revenue increasing over 30%² with EV charging almost doubling on the previous year.

Trade activity was limited during the month.

Outlook

The developments in Ukraine are adding to already heightened levels of market volatility. Beyond the tragic cost of human lives, Russia's invasion of Ukraine poses significant economic costs through higher energy prices and further supply chain disruptions. Deteriorating financial conditions has tempered expectations of near term interest rate hikes but we still expect major central banks to embark upon an extended period of rate rises and quantitative tightening over the coming months. On the positive side, economic activity remains robust and further easing of covid related restrictions is supportive. While we expect growth to moderate in 2022, 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.

² Source: Alfen earning call – 17/02/22

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 evolving economy. The strategy is therefore well positioned to benefit from the secular shifts we are witnessing globally.

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