Global Thematics strategy
Several industry bellwethers reported better than expected results providing some relief

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- The strategy meaningfully outperformed the broader equity index
- Our 'Connected Consumer', 'Cleantech' and 'Automation' themes performed strongly

Amanda O'Toole
Portfolio Manager, Global Thematics Strategy

What's happening?

Global equity markets rose sharply in July in US dollar terms as weaker macro data raised the possibility that interest rate expectations have peaked. On the corporate earnings side, several industry bellwethers reported results that were better than feared which also provided some relief. All regions posted gains except for China where rising virus cases, mortgage boycotts and fresh regulatory action against internet companies weighed on sentiment. On a sector basis, consumer discretionary and information technology bounced back strongly while more defensive areas of the market lagged. Growth notably outperformed value for the first time in several months.

In the US, inflation came in hotter than expected again at 9.1% year-on-year and the Federal Reserve raised interest rates by another 75bps to 2.50%. Meanwhile, the composite purchasing manager's index fell into contraction territory and real gross domestic product growth was negative for the second quarter in a row meaning the US is technically in a recession. The weakness was fairly widespread with falls in construction, investment and government spending.

Inflation continued to rise in the UK and Europe too, up to 9.4% and 9.6% year-on-year respectively. The European Central Bank (ECB) increased rates for the first time in over a decade and announced the Transmission Protection Instrument to ensure smooth transmission of monetary policy. The Nordstream 1 gas pipeline between Russia and Europe was restarted with flows at 35% of capacity before being reduced to 20% towards the end of the month leading to a sharp rise in prices and renewed fears of a shortage. In the UK, Prime Minister Boris Johnson resigned and his successor will be announced at the beginning of September.

Portfolio positioning and performance

The strategy meaningfully outperformed the broader equity index (MSCI All Country World) in July driven by strong returns across 'Connected Consumer', 'Cleantech' and 'Automation'.

In 'Connected Consumer', our position in internet giant Amazon added most to performance after reporting results that were better than feared given the macro backdrop. The shift towards Services revenues has limited the impact of higher input prices and near-term excess fulfilment capacity. Growth in Amazon Web Services remains very strong with a huge order backlog while the Advertising business continues to benefit from its favourable position at the point of purchase.

The performance of 'Cleantech' was boosted by our position in TE Connectivity, which provides connector systems and sensors used to distribute power, data and signals in challenging operating environments. The company reported broad sales growth, with particular strength in Autos, and better-than-expected profitability in Industrial and Communications. The company is well positioned to benefit from rising content in electric vehicles and opportunities in factory automation, medical and hyperscale infrastructure.

In 'Automation', shares in wireless connectivity company Qualcomm rebounded during the month. The company reported earnings ahead of expectations on solid execution although guidance disappointed slightly as lower global handset sales are expected if a slowdown in consumer spending materialises. Nevertheless, the company continues to expand its partnership with Samsung and its growing Internet of Things and Autos businesses provide good diversification.

Trade activity was limited during the month.

Outlook

The developments in Ukraine have added 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. Meanwhile, major central banks are embarking upon an extended period of interest rate rises and quantitative tightening in an attempt to rein in inflation. There are still reasons to be positive, however, as economic activity continues to be resilient.

While we expect growth to moderate going forward, the trends underpinning the Evolving Economy remain firmly intact and companies that are able to deliver earnings growth in this environment will likely be rewarded. 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 and ongoing covid lockdowns have 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 markets that benefit from secular tailwinds are best placed to navigate the evolving economy. The prospect of higher interest rates puts pressure on long duration assets but our preference for companies with healthy cash generation and strong focus on valuation should be supportive. 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.