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Global Thematics strategy

Q2 2020¹ corporate earnings results have allowed management teams to articulate improved visibility for the second half of the year

- Global equity markets performed well during July
- Contribution to positive performance generated by all themes
- We initiated a position in Chemed, a provider of hospice and palliative care

Amanda O'Toole
Portfolio Manager, Global Thematics Strategy

What's happening?

Global equity markets performed well during July, supported by second quarter corporate earnings which have largely beaten expectations and, in some cases, have allowed management teams to articulate improved visibility for the second half of the year. Growth continued to outperform value in all major markets, most notably this month in the UK. Those businesses with strong balance sheets and good cashflow conversion continue to outperform.

Asia is addressing an uptick in the incidence of COVID-19 and it appears that deteriorating transmission data in the US is now rolling over. Parts of Europe have also reported localised spikes, which have been addressed with targeted restrictions. Whilst progress towards potential treatments and vaccines has been made at an extraordinary pace, we are still some way from a scalable solution. Thus, the rate of relaxation remains dependant on the management of virus transmission in order to ensure adequate treatment capacity. This management has recently been prompt and targeted, limiting further macroeconomic damage. Nevertheless, ongoing policy support which is being provided by Central Banks remains critical.

Macroeconomic data has been broadly positive. The market has responded well to the sequential improvement in US data. However, recent comments from the Federal Reserve underline challenges in those areas of the economy where normalisation is likely to be slowest. Despite the scale of recent stimulus, it is increasingly likely that US rates will remain low for an extended period. In China, normalisation continues, with GDP growth turning positive during the second quarter. In Europe, we have seen strong momentum in the recovery, with industrial production rebounding sharply compared to the prior month. Whilst macroeconomic conditions remain weak, the sequential improvement is positive and suggest that conditions are improving – a message underlined by many corporates.

Whilst we expect some areas of the economy to operate below pre-crisis levels for the long term, there are products and services for whom the addressable market appears to have expanded. Notable examples are areas of the Connected

¹ Second quarter of the year 2020

Consumer and Automation. In addition to recent proposals for a Green Recovery from Europe, we see a notable expansion in the ambitions of corporates to address their environmental footprints adding support to the shift towards Clean Tech. The long term secular drivers behind Ageing and Lifestyle and Transitioning Societies also remain intact.

Portfolio positioning and performance

The strategy outperformed the broader equity market (MSCI All Country World) in July. Outperformance was supported by all themes. In 'Ageing and Lifestyle', Thermo Fisher and Zimmer Biomet led performance, following strong second quarter earnings and outlook from Thermo Fisher and expectations of strong earnings from Zimmer following a recovery in elective surgeries. In 'Connected Consumer', strength came from Amazon and ServiceNow, which are clear beneficiaries of the COVID related shift to e-commerce and digital transition by corporates respectively. In 'Automation', semiconductor stocks TSMC performed well due to the stronger outlook for some end markets, notably 5G investment. Also in 'Automation', Intuitive Surgery outperformed due to better than expected earnings. In 'Clean Tech', Kingspan benefitted from optimism for a green recovery and NextEra delivered solid quarterly earnings and announced an investment into a small green hydrogen pilot project. In 'Transitioning Societies', Alibaba contributed positively, due to encouraging sales data and the recovery of the Chinese consumer.

During July, we initiated a position in Chemed in 'Ageing and Lifestyle'. Chemed provides hospice and palliative care in the US and is well positioned to cope with the increasing elderly population in the US. To fund this, we trimmed a number of outperforming holdings across multiple themes, including Visa, Paypal, Dexcom and TSMC. We added to existing holdings in Nextera, Hannon Armstrong, Nuvasive and Microsoft.

Outlook

Macroeconomic conditions in major markets appear to be improving and monetary and fiscal support remain in place. Gradual normalisation is improving visibility for corporates and whilst virus transmission remains controlled, investors are increasingly focused on a recovery through next year. In the US, the Presidential election and tensions with China will continue to influence sentiment in the coming months.

It is likely that a number of the themes of the Global Thematics will be the long term beneficiaries of a shift in behaviour which was already apparent but which has accelerated as a result of the pandemic. 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 portfolio 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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