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# Digital Economy strategy

## A weaker summer month for equities due to ongoing macro concerns

- 86%<sup>1</sup> of the companies in the strategy beat their earnings forecasts for Q2 2023
- Further indications of weakness in consumer spending prevail
- Weaker US Labour market data reported

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### What's happening?

Global equity markets were weaker during the month with the MSCI ACWI declining 2.8%<sup>2</sup>, with all sectors providing a negative return during August except Energy (in which the Digital Economy Strategy has no exposure to). Markets faced renewed macro uncertainty in August, leading to a risk-off environment and negative returns across most regions. The US market declined despite a better-than-expected earnings season as economic data started to show signs of softening and rising concerns over stagflation weighed on European equities. In Emerging Markets, China was a notable laggard amid weak economic data and rising concerns in the property sector.

Companies continued to report their second quarter results which have been mostly encouraging for our investments. For those companies in the MSCI ACWI Index that have reported their first-quarter numbers, 51% have reported better-than-expected revenues and 52% reported better-than-expected earnings. For the Fund's investments, these figures are 65% and 86%, respectively. Additionally, guidance provided for the remainder of the year have been mostly positive within the caveats of a challenging macro environment.

Inflationary pressures continue to soften, whilst economic indicators continue to be resilient, particularly the US, further pushing out the risk of an imminent recession.

### Portfolio positioning and performance

During the month, our 'Discovery' theme provided the best returns, with Alphabet in particular supporting returns within the Search Engine/Social Media sub-theme. The company recently held an event focussing on Google Cloud which was well received as the company showcased new products to drive digital transformation using Artificial Intelligence capabilities.

Our 'Data & Enablers' theme detracted the most from performance, with the Enablers sub-theme being the largest cause due to the performance of Five9, Paycom and Paylocity.

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<sup>1</sup> Source: Bloomberg as of 31/08/2023

<sup>2</sup> Source : Bloomberg in USD as of 31/08/2023

Our top positive contributors during the month were Global Payments, reported better than expected results, driven by strong performance from its technology enabled businesses and raised full-year guidance despite the macroeconomic uncertainty; Goodman, the real estate business focused on warehouse and distribution centres who reported high occupancy and strong leasing activity – they are also benefiting from the increasing need for datacentres for Artificial Intelligence. Goodman is well placed to capture these opportunities; and Globant who's results were buoyed by strong demand for their digital transformation and artificial intelligence services.

Main detractors to performance during the month were Five9, the provider of Contact Centres as a Service software – whilst the company reported a good set of results their guidance for the remainder of the year included a conservative tone based upon weakness they are seeing amongst their customers in the retail and consumer space; Salesforce, where the stock was subject to profit taking going into results, however they have subsequently reported a robust report and guidance for the remainder of the year, including an uplift in revenue growth and profitability metrics; Paycom, whose stock was down after the company reported numbers that were ahead of forecast but didn't increase guidance the remainder of the year. Apple was also a detractor during the month however there was little in the way of newsflow to explain this weakness.

Over the month, we started a new position in Take-Two Interactive, a developer and publisher of video games. The company is best known for their Grand Theft Auto and NBA Basketball franchises.

## Outlook

We are mindful that there continue to be challenges with regards to inflation and rising interest rates, the sentiment for growth stocks has improved during the first half of the year supported by robust financial results and the possibility that the US economy will not go into a recession this year.

In the US, some cracks finally appeared in the employment market, which has until now been extremely robust. The 3-monthly pace of payrolls growth slowed to 150k, the slowest since December 2019, whilst unemployment jumped to 3.8%<sup>3</sup> – an 18 month high – reflecting a large increase in labour supply. However, these weaker economic indicators are likely to mean that the US Federal Reserve are likely to slow or even pause interest rate hikes, given wage inflation appears to be subsiding.

Whilst we wouldn't want to fully discount the ongoing impacts of the global and macro-economic headwinds that we continue to face; and the risk of additional unintended fallouts from the rapid increase in interest rates (like the failure of Silicon Valley Bank and Signature Bank), broadly speaking fundamentals around the digital economy (customer demand, financial results, and business outlooks) remain supportive.

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<sup>3</sup> Source : Bloomberg as of 31/08/2023

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