For professional clients only
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Monthly Perspectives
AXA IM Equity



# Social Progress strategy

## Healthcare sector remained resilient despite weakening market sentiment

- Global stocks moved lower as a risk-off sentiment dominated equity markets
- The strategy underperformed the broader market as outperformance of large capitalisation names and value stocks presented headwinds
- We remain long-term oriented and focused on companies which are well positioned to benefit from secular social themes

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**What's happening?**

A risk-off sentiment led to a pullback in equity markets during the month of September. Market sentiment is weakening as headwinds keep building even though the onset of a recession keeps being further pushed out. US Treasuries reached new highs as it is expected the US FED will have to keep interest rates higher for longer. Investors took profit in the Technology sector after a strong performance year-to-date. Real estate – due to its sensitivity to interest rates – and consumer discretionary – as worries build up over consumer spending – were also among the hardest hit sectors. The property crisis deepened in China with the arrest of its chairman while stimulus measures did little to reassure markets or support a weak yuan. Investors are also concerned about prospects for its main trading partners and for the region given China's weak economic recovery.  The only sector in the green was the energy sector benefiting from rising oil prices. Lower US oil reserves and voluntary production cuts by Saudi Arabia and Russia fuelled the surge in prices.

**Portfolio positioning and performance**

The strategy underperformed the broader equity index over the month. Large capitalization names generally outperformed small and mid-cap names, while Value stocks outperformed Growth stocks, both presenting headwinds to our strategy.

A number of our healthcare holdings held up better than the market. Managed care organization **Centene** rebounded from its lows after reiterating its full-year guidance. Indian diagnostics player **Dr. Lal Pathlabs** shares moved higher on the hope that the competitive backdrop is improving, which should support better pricing environment. **AstraZeneca** was also a relative safe haven during the period. Management continues to be very optimistic about the long-term prospects of its oncology franchise. Information services provider **RELX** signed a major agreement in Germany with hundreds of research institutions giving them access to its scientific publications. **South African Capitec Bank** reported solid revenue growth and profitability, despite the challenging economic backdrop. We saw some profit-taking in safety equipment manufacturer **MSA Safety** after an excellent start of the year, supported by strong demand for its products and a normalization of the supply chain bottlenecks. We like that a large portion of their portfolio is less economically sensitive than other industrials names, given their exposure to fire safety and other regulated safety standards. **Planet Fitness** board announced it is looking to replace its long-standing CEO, which was not taken well by the market. We believe the low-cost gym chain continues to have a long runway for growth despite a more muted pace of new gym openings in the near-term. Despite good operational performance, shares of pan-African telecommunication tower operator **Helios Towers** continue to underperform. The company is investing heavily on the back of growing demand on the African continent for mobile usage and data, but it will take several years for returns to be visible, once its tower portfolio matures. Bioprocessing firm **Sartorius** sales have been impacted by prolonged client destocking post covid-19 pandemic, with management expecting to reach a trough towards year-end. Childcare provider **Bright Horizons Family Solutions** revised down its financial guidance. This was primarily driven by weakness in the UK as labour and affordability issues have impacted enrolment, as well as increased operating cost pressures. Concerns over future share losses in IELTS testing - stemming from recent changes to Canadian visa requirements - have now expanded to student placements – although these are performing strongly for now - weighing down on IDP Education shares.

We made a couple of changes to the portfolio during the month. We decided to sell the remaining of our shares in telehealth platform **Teladoc Health**, which has delivered disappointing returns, particularly when it comes to their acquisition of **Livongo Health**. We initiated a position in **Doximity**, the largest medical network in the U.S., which includes over 80% of physicians. It offers a user-friendly suite of digital tools supporting medical professionals, in areas such as networking, medical education, patient management and administrative tasks. The company monetizes their platform through subscriptions to pharmaceutical firms and healthcare organizations. We also initiated a position in graphic processing units (GPU) designer **Nvidia**. Its solutions are increasingly used in wide-ranging applications, some of which contributing materially in our view to social objectives whether in the medical discovery and diagnostics field or in education and knowledge dissemination. For instance, it supplies AI-powered disease detection tools to a consortium of NHS Trusts in the UK, serving a total of 5 million patients. We believe the pace and reach of these innovations will only accelerate in coming years and that Nvidia is a critical enabler of such progress.

**Outlook**

We may be nearing a ceiling in terms of interest rates; nonetheless the market has been pushing back its expectations of when central banks in major Western regions – such as the American FED - will have room to start cutting their elevated target rates. For now, the picture remains mixed in the context of stubborn and higher than desired inflation. At this stage, a 'soft landing' scenario for the global economy remains the market's base case due to resilient employment trends and better than feared economic data. Nonetheless we continue to face an uncertain macroeconomic backdrop with leading indicators continuing to signal contraction and the state of the Chinese economy adding to concern. We also need to continue to be mindful of monetary tightening's lagged effect to the real economy.

We need to see more benign interest rates environment and improving macroeconomic conditions for prospects to brighten up for the portion of the portfolio exposed to small and medium sized growth companies. Nonetheless, we also hold a number of companies with defensive franchises focused on essential products and services or underpinned by more structural or regulatory drivers. We remain long-term oriented in our investment philosophy and focused on companies well positioned to benefit from secular social themes such as the growth in healthcare needs in an ageing society, the rise of the middle-class purchasing power in emerging markets, a steady societal focus on health and safety standards as well as governments' push for better access to essential products and services for all.

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