Digital Economy strategy

Results from mega cap bellwethers Alphabet, Apple, Microsoft, Google and Amazon all reported strength in their core businesses

- Significant market volatility over the month with Trump tariff measures
- Strength from Media/Entertainment and Cybersecurity ; weakness from Logistics
- Sold Zebra (automation equipment) ; bought Par Technology (payment solutions)

Matt Ward, Pauline Llandric
co-Portfolio Manager, Digital Economy Strategy

What's happening?

Global Equity markets continued their volatile start to the year, with the MSCI All Country World Total Return Index closing the month to rise 0.9%[1] in USD terms during April. The early part of the month saw a significant step up in volatility where the Trump administration announced baseline tariffs and reciprocal tariffs that were significantly higher than the majority of market participants expected on April 2nd, so-called 'Liberation Day' for the US. Whilst the Digital Economy strategy is largely insulated from the direct impact of tariffs, which apply at this stage to physical goods, uncertain indirect impacts from potential slower and lower purchasing by both enterprises and consumers, widened investor uncertainty. As the month progressed, the Trump Administration delayed the implementation of the reciprocal tariffs for 90 days and signalled its willingness to negotiate with trading partners to reduce the potential tariff levels, likely in response to market volatility and feedback from concerned corporations.

Portfolio positioning and performance

The Digital Economy strategy outperformed the MSCI All Country World Index during the month.

At the time of writing (May 5th), The Q1 earnings season is well under way, with earnings results and outlook commentaries for the Digital Economy strategy so far coming in strongly, particularly when contrasted with the broader market. The results from mega cap bellwethers Alphabet, Apple, Microsoft, Google and Amazon all reported strength in their core businesses

[1] Source: Bloomberg as of 30/04/2024 in USD

which we believe is important not just short term for these holdings in the strategy but also for the wider health of the Digital Economy ecosystem given their key investment role in critical AI infrastructure.

We also saw concrete signs that AI spend was driving revenue growth for the hyperscalers, with AI workloads leading to strength in Microsoft's cloud computing business (Azure) and Meta Platforms reporting improvements in consumer engagement and better advertising monetisation, powered by AI.

We saw strength across a number of key sub themes in the strategy, with Media and Entertainment leaders Netflix and Spotify particularly strong in the month. We see both companies as very well positioned to navigate a more volatile macro environment given their investments in creating superior yet very affordable entertainment platforms which consumers are less likely to turn off than other more discretionary spending. Elsewhere cybersecurity vendor Cyberark and enterprise productivity software vendor Servicenow also performed very strongly in the month.

Despite strength overall in the month, logistics provider Prologis was one name in the strategy which struggled this month. Whilst results for the quarter were solid, management commented that there were signs of customers delaying decision making due to tariff uncertainty.

In the month we sold out of our position in Zebra, a US company focused on automation equipment used in the logistics industry. Results from Zebra were ultimately more resilient than feared, however we thought it prudent to manage our exposure to ecommerce volumes given the current uncertainty.

In its place we initiated a position in Par Technology, which develops a platform of software and payment solutions focusing on the quick service restaurant and, more recently, the convenience store market. After two recent positive meetings with management we feel confident that Par is well placed to continue executing on its strategy in spite of macro uncertainty

Outlook

Investors are paying close attention to developments here as we seek to understand where things are likely to ultimately settle. During earnings season, companies have understandably had a challenge to be able to articulate with confidence what the impact of tariffs may be over the coming quarters – however, as evidenced by the market strengthening in the second half of the month, companies results have sounded better than feared and investors have taken some reassurance from the postponement of some of the tariffs.

The tariffs are seen by the US administration as a key tool to address what they deem to be unfair trade practises for many nations around the world and making foreign imports more expensive will be a key driver to support US manufacturing and reshore activity and jobs domestically. The Digital Economy, whilst limited exposure directly to either the tariffs or the more positive aspects of greater domestic investment in manufacturing, will still likely benefit from greater investment activity in the medium term. Similarly, if the impact of a sustained trade war were to limit growth and for inflation to remain elevated, the digital economy, particularly a number of enterprise software companies held in the strategy, are likely to see demand from customers looking to increase operating efficiency

With all this said, however, at present there continues to be a lot of uncertainty about the impact of these tariffs and some business decisions will inevitably be put on hold until there is greater clarity meaning shorter term earnings and stock volatility may remain elevated.

Stock/company examples are for explanatory/illustrative purposes only. They should not be viewed as investment advice or a recommendation from AXA IM. These examples do not represent all of the securities purchased, sold or recommended for the client's accounts. No representation is made that these were or will be profitable.

No assurance can be given that the Digital Economy strategy will be successful. Investors can lose some or all of their capital invested. The Digital Economy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG.

units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the “Fund”), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, “Qualified Institutions”) and other entities and individuals meeting specific criteria (“Other Qualified Investors”) pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

For Malaysian investors: as the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand (“SEC”). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People’s Republic of China (PRC): this document does not constitute a public offer of the product, whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC’s governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

For Brunei investors: This document has not been delivered to, licensed or permitted by Autoriti Monetari Brunei Darussalam. Nor has it been registered with the Registrar of Companies. This document is for informational purposes only and does not constitute an invitation or offer to the public. As such, it must not be distributed or redistributed to and may not be relied upon or used by any person in Brunei other than the person to whom it is directly communicated and who belongs to a class of persons as defined under Section 20 of the Brunei Securities Market Order, 2013.

For Filipino investors: The shares or units referred to in this document (if any) have not been registered with the Securities and Exchange Commission under the Securities Regulation Code. Any future offer or sale thereof is subject to registration requirements under the Code unless such offer or sale qualifies as an exempt transaction.

For Vietnam investors: This document does not contemplate an offer to sell the interests in any funds in Vietnam. The document has not been approved by the State Securities Commission of Vietnam or any other competent authorities in Vietnam which takes no responsibility for its contents. No offer to purchase the interests in any funds will be made in Vietnam and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally. The value of the interests in any funds, the possibility of gaining profit and the level of risk stipulated in this document is purely for reference purposes only and may change at any time depending on market status. Investment in fund(s) does not carry any assurance that investors will make a profit. Investors should themselves carefully balance the risks and the level of those risks before they make any decision to invest in any funds. It is investors’ responsibilities to ensure that they are eligible to make investment in any funds. Investors are responsible for obtaining all applicable approvals and complying with requirements under Vietnamese laws.

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct,