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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)

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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.

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