Digital Economy strategy

Strong AI infrastructure spending and easing macro volatility support digital outlook into earnings season

- Global equity markets rose again in July, supported by trade progress and strong earnings
- Strength from Alphabet, Cadence and Roblox; Weakness from Netflix, Spotify and Palo Alto
- We exited Meituan and Elastic while adding to Datadog and initiating a position in Roblox

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What's happening?

Global equity markets continued to perform strongly through most of June and despite a weak closing week, the MSCI All Country World Total Return Index rose by 1.4% [1] over the month. Announcements of trade agreements with Japan and the EU, along with the passage of the OBBBA (One Big Beautiful Bill Act), reduced trade war risks and supported market gains, alongside a strong start to corporate earnings season. Whilst trade news flow could continue to impact market sentiment, there appears to be a more stable environment for corporate decision makers and investors alike.

Portfolio positioning and performance

The Digital Economy strategy underperformed the MSCI All Country World Index over the month.

The strategy's focus on the most innovative asset light digital leaders across the economy captures investment opportunities across Consumer and Business end markets. In July both the Business and Consumer segments underperformed overall and contributed to both the top and bottom performers. Within Consumer we saw positive contributions from new holding Roblox, Amazon and Alphabet but, in contrast saw weaker performance from media and entertainment leaders Netflix and Spotify. Both had performed very well so far in 2025 and, whilst results for both were solid, there was little near term to push the shares higher. In the long run we continue to think both are well placed to benefit from increased personalisation driven by improvements in their recommendation engines, as well as financial levers to pull through the expansion of ad-supported product tiers at varying stages of maturity. As such we have held our significant holdings through the near term softness in the shares.

Within Business the picture was similarly mixed, with strong performance by Cadence and Microsoft offset by weaker performance in a number of cybersecurity names including Palo Alto Networks and Crowdstrike as well as enterprise productivity software company Servicenow. The positive performance of Cadence, a leader in semiconductor design software, was driven both by strong results late in the month compounding the relief that the US administration lifted a ban on sales of its tools and software into China. Within the overall softness of cybersecurity names in the month Palo Alto

[1] Bloomberg as of 31/07/2025, in USD

Networks dropped late in the month on its decision to purchase CyberArk, a leader in identity security that is also held in the strategy, in a $25bn deal. The deal extends Palo's approach for selling a broad cybersecurity platform into the area of identity and access management, an appealing are of cybersecurity as we head into an Agentic AI world, where the proliferation of agent 'identities' expands the cybersecurity threat landscape enormously. Whilst the strategic rationale is understood, the scale of the transaction and associated cashflow dilution to Palo Alto shareholders as well as integration risks, put pressure on the shares.

In the month we exited our position in Meituan, the Chinese online food delivery platform, as we have grown increasingly concerned that the company is in a period of intensifying competition with Alibaba and JD.com which is forcing Meituan to drive up subsidies. Elsewhere we also sold a small position in data search and analytics software provider Elastic. Whilst we believe Elastic remains well positioned to benefit over time from increased enterprise adoption of AI, we believe there continue to be shorter term headwinds for the company relating to US public sector exposure and broader enterprise spend optimisation which may limit nearer term positivity. In contrast to Elastic, we have become more positive on the outlook for observability software provider Datadog, where we feel spend optimisation trends are largely behind the company, supported by recent accelerations of hyperscaler cloud and AI growth.

Elsewhere we also initiated a position in game development platform Roblox where we see increased platform efficiency in identifying and scaling potential hits on the platform and increasing engagement amongst older gaming cohorts. This was funded with a reduction in our long term holdings in other gaming leaders Nintendo and TakeTwo.

Outlook

The market has moved on from peak volatility and fear about trade dislocations and knock on impacts stemming from unprecedented tariff announcements in early May, with sentiment improving as trade agreements largely being settled well below the most extreme possible outcomes. There remain a lot of details to be confirmed on a number of the agreed deals and, of critical importance, a deal with China will be needed before we can move beyond this period of tariff uncertainty. In the meantime, during earnings season, we have seen a reassuring resilience of company results and an optimism that greater stability in global trade will allow companies to make investment decisions with greater clarity. The Digital Economy, whilst limited in its direct exposure to tariff uncertainty, is well positioned to benefit from greater certainty on where international trade relationships will ultimately settle as decision . Ultimately, even in a world of higher international trade frictions, we see the resilience of the structural growth drivers in the digital economy holding and a significant number of holdings within the strategy actively benefitting from the need for customers to themselves have more agile and efficient business models.

Another feature of the current earnings season is that we have seen very strong levels of CAPEX from the large Technology companies as they invest heavily in the infrastructure required for artificial intelligence and have seen indications that this heavily spending will continue in to 2026. This has been further supported by the passing of the "One Big Beautiful Bill Act" in the US which allows for the immediate depreciation of infrastructure and R&D investments and is expected to provide significant tax savings for companies investing heavily. Whilst the Digital Economy strategy is less directly invested in the asset heavy parts of the artificial rollout, we are very optimistic that this increase in infrastructure build will flow through to a wide array of digital investment opportunities over the years to come.

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[1] Bloomberg as of 31/07/2025, in USD